

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended

|  |                                 |   |                  |
|--|---------------------------------|---|------------------|
| Local Unit of Government Type<br><input type="checkbox"/> County <input checked="" type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other |                                 | Local Unit Name<br>City of Au Gres                        | County<br>Arenac |
| Fiscal Year End<br>June 30, 2007   | Opinion Date<br>August 20, 2007 | Date Audit Report Submitted to State<br>November 14, 2007 |                  |

We affirm that:

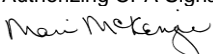
We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

- |     | YES                                 | NO                                  | Check each applicable box below. (See instructions for further detail.)   |
|-----|-------------------------------------|-------------------------------------|---|
| 1.  | <input checked="" type="checkbox"/> | <input type="checkbox"/>            | All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.   |
| 2.  | <input type="checkbox"/>            | <input checked="" type="checkbox"/> | There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.   |
| 3.  | <input checked="" type="checkbox"/> | <input type="checkbox"/>            | The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.  |
| 4.  | <input checked="" type="checkbox"/> | <input type="checkbox"/>            | The local unit has adopted a budget for all required funds.   |
| 5.  | <input checked="" type="checkbox"/> | <input type="checkbox"/>            | A public hearing on the budget was held in accordance with State statute.   |
| 6.  | <input checked="" type="checkbox"/> | <input type="checkbox"/>            | The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.   |
| 7.  | <input checked="" type="checkbox"/> | <input type="checkbox"/>            | The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.  |
| 8.  | <input checked="" type="checkbox"/> | <input type="checkbox"/>            | The local unit only holds deposits/investments that comply with statutory requirements.   |
| 9.  | <input type="checkbox"/>            | <input checked="" type="checkbox"/> | The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the <i>Bulletin for Audits of Local Units of Government in Michigan</i> , as revised (see Appendix H of Bulletin).  |
| 10. | <input checked="" type="checkbox"/> | <input type="checkbox"/>            | There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover. |
| 11. | <input checked="" type="checkbox"/> | <input type="checkbox"/>            | The local unit is free of repeated comments from previous years.  |
| 12. | <input checked="" type="checkbox"/> | <input type="checkbox"/>            | The audit opinion is UNQUALIFIED.   |
| 13. | <input checked="" type="checkbox"/> | <input type="checkbox"/>            | The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).  |
| 14. | <input checked="" type="checkbox"/> | <input type="checkbox"/>            | The board or council approves all invoices prior to payment as required by charter or statute.  |
| 15. | <input checked="" type="checkbox"/> | <input type="checkbox"/>            | To our knowledge, bank reconciliations that were reviewed were performed timely.  |

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

|   |                                     |  |                         |
|---|-------------------------------------|--|-------------------------|
| <b>We have enclosed the following:</b>  | Enclosed                            | Not Required (enter a brief justification) |                         |
| Financial Statements  | <input checked="" type="checkbox"/> |  |                         |
| The letter of Comments and Recommendations  | <input checked="" type="checkbox"/> |  |                         |
| Other (Describe)  | <input type="checkbox"/>            |  |                         |
| Certified Public Accountant (Firm Name)<br>Yeo & Yeo, P.C.  |                                     | Telephone Number<br>989-793-9830           |                         |
| Street Address<br>3023 Davenport  |                                     | City<br>Saginaw                            | State<br>MI             |
| Authorizing CPA Signature<br> |                                     | Printed Name<br>Mari McKenzie              | License Number<br>10725 |

**City of Au Gres**  
**Arenac County, Michigan**  
**Annual Financial Statements**  
**and**  
**Auditors' Report**  
**June 30, 2007**

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**City of Au Gres**  
**List of Elected and Appointed Officials**  
**June 30, 2007**

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City Council

LaVern Dittenber - Mayor

Tom Ennes - Mayor Pro-Tem

Robert Woolever - Councilman

Greg Dittenber - Councilman

Yvonne Schell - Councilwoman

Other Officers and Officials

Patricia Killingbeck - City Manager

Mary Fresorger - City Clerk/Treasurer

## **Independent Auditors' Report**

To the Honorable Mayor and Members of City Council  
City of Au Gres

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of City of Au Gres as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Au Gres as of June 30, 2007 and the respective changes in financial position and cash flows, where applicable, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 20, 2007 on our consideration of the City of Au Gres' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information identified in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Au Gres' basic financial statements. The accompanying other supplemental information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Yeo & Yeo, P.C.*

August 20, 2007  
Saginaw, Michigan

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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# City of Au Gres

## Management's Discussion and Analysis

### June 30, 2007

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Our discussion and analysis of the City of AuGres' financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2007. Please read it in conjunction with the City's financial statements.

### **Financial Highlights**

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended June 30, 2007.

### **Using this Annual Report**

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the City of AuGres as a whole and present a longer-term view of the City's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year and whether the taxpayers have funded the full cost of providing governmental services.

The fund financial statements present a short term view; they tell us how the taxpayer's resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the City's operations in more detail than the government-wide financial statements by providing information about the City's most significant funds. The fiduciary fund statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government.

### **The City of AuGres as a Whole**

The following table shows, in a condensed format, the net assets as of the current date and compared to the prior year:

|                              | Governmental Activities |                     | Business-type Activities |                     | Total               |                     |
|------------------------------|-------------------------|---------------------|--------------------------|---------------------|---------------------|---------------------|
|                              | 2007                    | 2006                | 2007                     | 2006                | 2007                | 2006                |
| <b>Assets</b>                |                         |                     |                          |                     |                     |                     |
| Current and other assets     | \$ 2,421,171            | \$ 1,614,904        | \$ 192,187               | \$ 191,583          | \$ 2,613,358        | \$ 1,806,487        |
| Capital assets               | 2,396,145               | 2,259,865           | 4,243,182                | 4,419,163           | 6,639,327           | 6,679,028           |
| Total assets                 | <u>4,817,316</u>        | <u>3,874,769</u>    | <u>4,435,369</u>         | <u>4,610,746</u>    | <u>9,252,685</u>    | <u>8,485,515</u>    |
| <b>Liabilities</b>           |                         |                     |                          |                     |                     |                     |
| Current liabilities          | 38,562                  | 30,394              | 12,136                   | 22,817              | 50,698              | 53,211              |
| Long-term liabilities        | 1,973,837               | 1,160,700           | 825,000                  | 858,000             | 2,798,837           | 2,018,700           |
| Total liabilities            | <u>2,012,399</u>        | <u>1,191,094</u>    | <u>837,136</u>           | <u>880,817</u>      | <u>2,849,535</u>    | <u>2,071,911</u>    |
| <b>Net assets</b>            |                         |                     |                          |                     |                     |                     |
| Invested in capital assets - |                         |                     |                          |                     |                     |                     |
| Net of related debt          | 1,242,117               | 1,131,925           | 3,402,519                | 3,561,163           | 4,644,636           | 4,693,088           |
| Restricted                   | 54,553                  | 22,265              | 84,500                   | -                   | 139,053             | 22,265              |
| Unrestricted                 | 1,508,247               | 1,529,485           | 111,214                  | 168,766             | 1,619,461           | 1,698,251           |
| Total net assets             | <u>\$ 2,804,917</u>     | <u>\$ 2,683,675</u> | <u>\$ 3,598,233</u>      | <u>\$ 3,729,929</u> | <u>\$ 6,403,150</u> | <u>\$ 6,413,604</u> |

**City of Au Gres**  
**Management's Discussion and Analysis**  
**June 30, 2007**

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City of AuGres net assets of governmental activities are \$2,804,917 and \$3,598,233 for business type activities; of these amounts \$1,508,247 (governmental) and \$111,214 (business-type) are unrestricted assets.

The change in net assets for governmental activities is a reflection of capital projects completed in fiscal year 2006/2007 such as the Saginaw and West Street Construction Projects. The City was awarded 80% grant funds to fund construction of street intersections at US-23. City Council approved completing construction on both streets from the City's Capital Projects Fund. The City prepared public notices, hearings, compiled city financial data for bond bids, bond sale and delivery of proceeds (5/8/07) of the \$995,000 bond issue.

|  | Governmental Activities |                    | Business-type Activities |                     | Total              |                     |
|--|-------------------------|--------------------|--------------------------|---------------------|--------------------|---------------------|
|  | 2007                    | 2006               | 2007                     | 2006                | 2007               | 2006                |
| <b>Revenue</b>                         |                         |                    |                          |                     |                    |                     |
| Program revenue                        |                         |                    |                          |                     |                    |                     |
| Charges for services                   | \$ 92,049               | \$ 51,628          | \$ 557,985               | \$ 524,562          | \$ 650,034         | \$ 576,190          |
| Operating grants and contributions     | 177,673                 | 128,798            | -                        | -                   | 177,673            | 128,798             |
| Capital grants and contributions       | 7,126                   | -                  | -                        | -                   | 7,126              | -                   |
| General revenue                        |                         |                    |                          |                     |                    |                     |
| Property taxes                         | 429,215                 | 408,435            | -                        | -                   | 429,215            | 408,435             |
| State-shared revenue                   | 90,886                  | 85,734             | -                        | -                   | 90,886             | 85,734              |
| Unrestricted investment earnings       | 48,177                  | 31,666             | 5,412                    | 4,988               | 53,589             | 36,654              |
| Miscellaneous                          | (1,048)                 | 25,665             | 38,168                   | 30,633              | 37,120             | 56,298              |
| Total revenue                          | <u>844,078</u>          | <u>731,926</u>     | <u>601,565</u>           | <u>560,183</u>      | <u>1,445,643</u>   | <u>1,292,109</u>    |
| <b>Program expenses</b>                |                         |                    |                          |                     |                    |                     |
| General government                     | 294,828                 | 256,066            | -                        | -                   | 294,828            | 256,066             |
| Public safety                          | 111,906                 | 92,695             | -                        | -                   | 111,906            | 92,695              |
| Public works                           | 129,064                 | 290,304            | -                        | -                   | 129,064            | 290,304             |
| Recreation and culture                 | 110,628                 | 69,833             | -                        | -                   | 110,628            | 69,833              |
| Interest on long-term debt             | 11,410                  | 9,845              | -                        | -                   | 11,410             | 9,845               |
| Water and sewer                        | -                       | -                  | 798,261                  | 765,767             | 798,261            | 765,767             |
| Total program expenses                 | <u>657,836</u>          | <u>718,743</u>     | <u>798,261</u>           | <u>765,767</u>      | <u>1,456,097</u>   | <u>1,484,510</u>    |
| Change in net assets, before transfers | 186,242                 | 13,183             | (196,696)                | (205,584)           | (10,454)           | (192,401)           |
| Transfers                              | (65,000)                | (73,268)           | 65,000                   | 73,268              | -                  | -                   |
| <b>Change in net assets</b>            | <u>\$ 121,242</u>       | <u>\$ (60,085)</u> | <u>\$ (131,696)</u>      | <u>\$ (132,316)</u> | <u>\$ (10,454)</u> | <u>\$ (192,401)</u> |

## **Governmental Activities**

The City of AuGres' total governmental activity revenues were \$844,078. Governmental activity expenses of \$657,836 were recorded for the year.

**City of Au Gres**  
**Management's Discussion and Analysis**  
**June 30, 2007**

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**Business Type Activities**

The City of AuGres' total business-type activity revenues were \$601,565 and expenses were \$798,261.

The City of AuGres business-type activity consists of Water Fund, Sewer Fund, Park Fund and Boat Access and Harbor Fund.

**Water Fund**

The City provides treated water to the City residents. Raw water is purchased from Saginaw-Midland Water Supply System. The City also provides water to approximately 40 AuGres Township customers, along US-23 west of the City. The City has a revenue bond debt for recent system wide improvements. Fiscal year 2007 shows we had a 4,000,000 gallon increase in volume of water sold from 2006. The number of users is stable. The City has also put two lease agreements into place with two telecom companies which have increased additional revenues for the water fund. There are additional testing requirements through the EPA for stage 2 qualifications that will increase costs.

The City reviewed, drafted and revised several versions of the Water Use & Connection Ordinance/Ground Water Use Restriction Ordinance with input from the City attorney, council members and City staff that was compatible with City sewer ordinances.

**Sewer Fund**

The City also provides municipal sanitary sewer to its residents. The City's sanitary sewer system is relatively debt free, and 1971 revenue bonds through USDA are scheduled to be paid off in 2008.

**Park Fund**

Another business activity is the City operated campground and recreation facility. This has been operated by the City for the past 52 years – operations were expanded recently with additional campsites, new bathhouse, etc.

The new bath house/campsite project reflected a change in utility rate structure levied by Consumers Energy resulting in a tremendous increase in electric expense.

In addition, seasonal usage of campers declined in part as a result of high gas prices restricting travel of senior citizen groups, decline of perch fisheries in Lake Huron – a popular draw for senior campground guests, and a number of seasonal customers were lost as a result of competition by a local condo campground encouraging rentals rather than lot sales.

**City of Au Gres**  
**Management's Discussion and Analysis**  
**June 30, 2007**

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The Parks and Recreation Master Plan was updated which needs to be done every five years. The plan was adopted at the June 2007 regular Council meeting.

**Boat Access Site & Harbor Fund**

The City entered into the 4th year of a 15 year lease agreement with the State of Michigan to operate the Federal Harbor of Refuge, State Boat Docks and the State Boat Launch.

The City is still experiencing a loss in operations of this program. The State of Michigan (DNR) required that the city sell state stickers at the Boat Access Site location and accept any already sold at other locations. This mandate limits revenue potential for the City. City officials believe revenues would have been even better if the City was not required to honor stickers sold at other state locations without being reimbursed by the State of Michigan.

Due to extremely high gas prices and a continued perception that water depths are low in the AuGres River and Saginaw Bay/Lake Huron, activity again was very slow at the Harbor. Harbor dockage decreased in spite of being operating 7 days a week, due to a perception that the AuGres River was not travelable.

**Implementation of Mosquito Program**

Approval of millage by City residents in November resulted in additional staff requirements such as mailings, public notification, tax levy, and meetings with contractors to implement the program.

**City of AuGres Funds**

The fund financial statements provide detailed information about the most significant funds, not the City of AuGres as a whole. The City Council creates funds to help manage money for specific purposes as well as show accountability for certain activities, such as State of Michigan Act 51, Major and Local Street funds for 2007. The City of AuGres governmental major funds include General Fund, Major and Local Street Funds, Capital Projects Fund and 1998 Improvement Fund.

**a) General Fund**

Functions relating to the general governmental activities of the City, which are financed by property tax levies, by distribution of State revenues from fees charged for various municipal activities and services are recorded in the General Fund. This fund had a decreased fund balance of \$80,467.

**City of Au Gres**  
**Management's Discussion and Analysis**  
**June 30, 2007**

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**b) Major and Local Street Funds**

The State of Michigan provides municipalities revenues from gas and weight taxes to reimburse expenditures for the maintenance and construction of the local street system. The State requires that these expenditures be segregated into a Major Street component and a Local Street component. The City uses these funds for improvements to the City street system, along with contributions from the General Fund. The Major Street Funds were utilized for the Main Street intersection project.

**c) Capital Projects Fund**

The Capital Project Fund is being used to accumulate funds for a bike path from downtown to the mouth of the AuGres River, for the Mackinaw/Luke/Water Project and N Mackinaw Project.

**d) 1998 Improvement Fund**

The 1998 Improvement Fund is funded through special assessments to the City's residents. The fund makes payments for special assessment bonds.

The City of AuGres major enterprise funds include the Sewer Fund, Water Fund and Park Fund.

**a) Sewer Fund**

This fund covers the operations of the City's Sewage Treatment Plant and the maintenance and construction of the sewer distribution system. The sewage treatment fund is responsible for payment out of revenues for 1971 revenue bonds. Another 1971 bond, G.O., is currently levied on taxes. Sewer system revenues are not keeping pace with existing expenditures. The City increased rates December 15, 2006.

**b) Water Fund**

This fund finances the operation of the Water Treatment Plant and the entire transmission and distribution system. The City presently has a contract with AuGres Township and those property owners provide additional estimated revenues of \$10,000. All revenues to operate the Water Plant and distribution system is derived from user fees. Water system revenues are not keeping pace with existing expenditures. The City increased rates December 15, 2006.

**City of Au Gres  
Management's Discussion and Analysis  
June 30, 2007**

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**c) Park Fund**

This fund covered the operation of the City's Riverfront Campground and the maintenance of the park buildings, mowing park grounds, and maintaining/repairing recreation facilities including basketball courts, tennis courts, playground equipment, riverfront walkway, etc. All revenues to operate the Campground are derived from user fees.

**General Fund Budgetary Highlights**

Over the course of the year, the City Council and City administration monitor and amend the budget to account for unanticipated events during the year. No significant changes to report.

**Capital Asset and Debt Administration**

At the end of 2007 the City of AuGres has \$6,639,327 invested in a wide range of capital assets, including land, buildings, machinery and equipment, and water and sewer systems, net of accumulated depreciation. The value of the governmental infrastructure assets, net of depreciation contained in this report, is \$446,086 at the end of 2007. This is the fourth year of accounting for governmental infrastructure assets, therefore amounts for streets and other infrastructure are only from July 2003 forward.

Debt reported in these financial statements is related to the construction of the above-mentioned infrastructure assets and buildings and is reported as a liability on the statement of net assets.

**Economic Factors and Next Year's Budgets and Rates**

City operations continue to fall behind revenues due to bond issue obligations, and the City has increased water rates to meet that obligation.

**Contacting the City of AuGres' Management**

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the City of AuGres' finances and to show the City's accountability for the money it receives. If you have any questions about this report or need additional information, we welcome you to contact the administration offices at city hall.

## BASIC FINANCIAL STATEMENTS

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**City of Au Gres**  
**Statement of Net Assets**  
**June 30, 2007**

|   | Primary Government  |                     |                     | Component         |
|---|---------------------|---------------------|---------------------|-------------------|
|   | Governmental        | Business-type       | Total               | Unit              |
|   | Activities          | Activities          |                     |                   |
| <b>Assets</b>                                   |                     |                     |                     |                   |
| Cash and cash equivalents                       | \$ 2,166,800        | \$ 100,946          | \$ 2,267,746        | \$ 131,300        |
| Investments                                     | 30,600              | -                   | 30,600              | -                 |
| Receivables                                     |                     |                     |                     |                   |
| Taxes   | 29,465              | -                   | 29,465              | 2,977             |
| Customers                                       | 4,824               | 58,299              | 63,123              | -                 |
| Special assessments                             | 76,192              | -                   | 76,192              | -                 |
| Accrued interest and other                      | -                   | 1,039               | 1,039               | -                 |
| Due from other units of government              | 59,098              | 1,595               | 60,693              | -                 |
| Internal balances                               | 54,192              | (54,192)            | -                   | -                 |
| Due from primary government                     | -                   | -                   | -                   | 814               |
| Restricted assets                               |                     |                     |                     |                   |
| Investments                                     | -                   | 84,500              | 84,500              | -                 |
| Non-depreciable capital assets                  | 387,069             | 16,163              | 403,232             | -                 |
| Depreciable capital assets, net                 | 2,009,076           | 4,227,019           | 6,236,095           | -                 |
| Total assets                                    | <u>4,817,316</u>    | <u>4,435,369</u>    | <u>9,252,685</u>    | <u>135,091</u>    |
| <b>Liabilities</b>                              |                     |                     |                     |                   |
| Accounts payable                                | 20,862              | 1,200               | 22,062              | -                 |
| Accrued and other liabilities                   | 16,886              | 10,936              | 27,822              | -                 |
| Due to component unit                           | 814                 | -                   | 814                 | -                 |
| Noncurrent liabilities                          |                     |                     |                     |                   |
| Due within one year                             | 236,032             | 43,000              | 279,032             | -                 |
| Due in more than one year                       | 1,737,805           | 782,000             | 2,519,805           | -                 |
| Total liabilities                               | <u>2,012,399</u>    | <u>837,136</u>      | <u>2,849,535</u>    | <u>-</u>          |
| <b>Net assets</b>                               |                     |                     |                     |                   |
| Invested in capital assets, net of related debt | 1,242,117           | 3,402,519           | 4,644,636           | -                 |
| Restricted for:                                 |                     |                     |                     |                   |
| Debt service                                    | 54,553              | 84,500              | 139,053             | -                 |
| Unrestricted                                    | 1,508,247           | 111,214             | 1,619,461           | 135,091           |
| Total net assets                                | <u>\$ 2,804,917</u> | <u>\$ 3,598,233</u> | <u>\$ 6,403,150</u> | <u>\$ 135,091</u> |

See Accompanying Notes to Financial Statements



**City of Au Gres**  
**Statement of Activities**  
**For the Year Ended June 30, 2007**

| Functions/Programs                   | Program Revenues    |                         |  |  | Net (Expense) Revenue and<br>Changes in Net Assets |                             |                     |                   |
|--------------------------------------|---------------------|-------------------------|--|--|--|-----------------------------|---------------------|-------------------|
|                                      | Expenses            | Charges for<br>Services | Operating<br>Grants and<br>Contributions | Capital<br>Grants and<br>Contributions | Primary Government                                 |                             |                     | Component<br>Unit |
|                                      |                     |                         |  |  | Governmental<br>Activities                         | Business-type<br>Activities | Total               |                   |
| <b>Primary government</b>            |                     |                         |  |  |  |                             |                     |                   |
| Governmental activities              |                     |                         |  |  |  |                             |                     |                   |
| General government                   | \$ 294,828          | \$ 43,022               | \$ -                                     | \$ -                                   | \$ (251,806)                                       | \$ -                        | \$ (251,806)        | \$ -              |
| Public safety                        | 111,906             | -                       | -  | -                                      | (111,906)  | -                           | (111,906)           | -                 |
| Public works                         | 129,064             | 23,532                  | 166,302                                  | -                                      | 60,770   | -                           | 60,770              | -                 |
| Recreation and culture               | 110,628             | -                       | 11,371                                   | -                                      | (99,257)   | -                           | (99,257)            | -                 |
| Interest on long-term debt           | 11,410              | -                       | -  | 7,126                                  | (4,284)  | -                           | (4,284)             | -                 |
| Total governmental activities        | 657,836             | 66,554                  | 177,673                                  | 7,126                                  | (406,483)  | -                           | (406,483)           | -                 |
| Business-type activities             |                     |                         |  |  |  |                             |                     |                   |
| Sewer                                | 304,846             | 212,461                 | -  | -                                      | -  | (92,385)                    | (92,385)            | -                 |
| Water                                | 307,641             | 243,475                 | -  | -                                      | -  | (64,166)                    | (64,166)            | -                 |
| Park                                 | 131,995             | 73,902                  | -  | -                                      | -  | (58,093)                    | (58,093)            | -                 |
| Boat access and harbor               | 53,779              | 28,147                  | -  | -                                      | -  | (25,632)                    | (25,632)            | -                 |
| Total business-type activities       | 798,261             | 557,985                 | -  | -                                      | -  | (240,276)                   | (240,276)           | -                 |
| <b>Total primary government</b>      | <b>\$ 1,456,097</b> | <b>\$ 624,539</b>       | <b>\$ 177,673</b>                        | <b>\$ 7,126</b>                        | <b>(406,483)</b>                                   | <b>(240,276)</b>            | <b>(646,759)</b>    | <b>-</b>          |
| <b>Component unit</b>                |                     |                         |  |  |  |                             |                     |                   |
| Tax Increment Financing Authority    | \$ 362,845          | \$ -                    | \$ -                                     | \$ -                                   |  |                             |                     | (362,845)         |
| General revenues                     |                     |                         |  |  |  |                             |                     |                   |
| Property taxes                       |                     |                         |  |  | 429,215  | -                           | 429,215             | 429,903           |
| State shared revenue                 |                     |                         |  |  | 90,886   | -                           | 90,886              | -                 |
| Unrestricted investment earnings     |                     |                         |  |  | 48,177   | 5,412                       | 53,589              | 2,346             |
| Miscellaneous                        |                     |                         |  |  | 24,447   | 38,168                      | 62,615              | -                 |
| Transfers                            |                     |                         |  |  | (65,000)   | 65,000                      | -                   | -                 |
| Total general revenues and transfers |                     |                         |  |  | 527,725  | 108,580                     | 636,305             | 432,249           |
| Change in net assets                 |                     |                         |  |  | 121,242  | (131,696)                   | (10,454)            | 69,404            |
| Net assets - beginning of year       |                     |                         |  |  | 2,683,675  | 3,729,929                   | 6,413,604           | 65,687            |
| <b>Net assets - end of year</b>      |                     |                         |  |  | <b>\$ 2,804,917</b>                                | <b>\$ 3,598,233</b>         | <b>\$ 6,403,150</b> | <b>\$ 135,091</b> |

See Accompanying Notes to Financial Statements

**City of Au Gres**  
**Governmental Funds**  
**Balance Sheet**  
**June 30, 2007**

|  | Special Revenue Funds |                   |                   | Debt Service Fund     |                       |                             |                          |
|--|-----------------------|-------------------|-------------------|-----------------------|-----------------------|-----------------------------|--------------------------|
|  | General               | Major Street Fund | Local Street Fund | 1998 Improvement Fund | Capital Projects Fund | Nonmajor Governmental Funds | Total Governmental Funds |
| <b>Assets</b>                              |                       |                   |                   |                       |                       |                             |                          |
| Cash and cash equivalents                  | \$ 574,539            | \$ 72,521         | \$ 92,201         | \$ 36,968             | \$ 1,210,099          | \$ 123,882                  | \$ 2,110,210             |
| Investments                                | -                     | -                 | -                 | -                     | -                     | 30,600                      | 30,600                   |
| Receivables                                |                       |                   |                   |                       |                       |                             |                          |
| Taxes                                      | 443                   | -                 | -                 | -                     | -                     | 29,022                      | 29,465                   |
| Customers                                  | 4,824                 | -                 | -                 | -                     | -                     | -                           | 4,824                    |
| Special assessments                        | -                     | -                 | -                 | 67,745                | -                     | 8,447                       | 76,192                   |
| Due from other units of government         | 45,071                | 8,941             | 5,086             | -                     | -                     | -                           | 59,098                   |
| Due from other funds                       | 33,252                | -                 | 901               | -                     | -                     | 198                         | 34,351                   |
| <b>Total assets</b>                        | <b>\$ 658,129</b>     | <b>\$ 81,462</b>  | <b>\$ 98,188</b>  | <b>\$ 104,713</b>     | <b>\$ 1,210,099</b>   | <b>\$ 192,149</b>           | <b>\$ 2,344,740</b>      |
| <b>Liabilities</b>                         |                       |                   |                   |                       |                       |                             |                          |
| Accounts payable                           | \$ 20,862             | \$ -              | \$ -              | \$ -                  | \$ -                  | \$ -                        | \$ 20,862                |
| Due to other funds                         | 1,241                 | 981               | 35                | -                     | -                     | -                           | 2,257                    |
| Due to component unit                      | -                     | -                 | -                 | 814                   | -                     | -                           | 814                      |
| Deferred revenue                           | 15,873                | 4,542             | 2,584             | 67,902                | -                     | 37,469                      | 128,370                  |
| Total liabilities                          | 37,976                | 5,523             | 2,619             | 68,716                | -                     | 37,469                      | 152,303                  |
| <b>Fund balances</b>                       |                       |                   |                   |                       |                       |                             |                          |
| Reserved for:                              |                       |                   |                   |                       |                       |                             |                          |
| Debt service                               | -                     | -                 | -                 | 35,997                | -                     | 18,556                      | 54,553                   |
| Unreserved                                 |                       |                   |                   |                       |                       |                             |                          |
| Designated for:                            |                       |                   |                   |                       |                       |                             |                          |
| Special projects                           | 138,000               | -                 | -                 | -                     | -                     | -                           | 138,000                  |
| Unreserved, reported in:                   |                       |                   |                   |                       |                       |                             |                          |
| General fund                               | 482,153               | -                 | -                 | -                     | -                     | -                           | 482,153                  |
| Special revenue funds                      | -                     | 75,939            | 95,569            | -                     | -                     | 53,952                      | 225,460                  |
| Capital projects funds                     | -                     | -                 | -                 | -                     | 1,210,099             | 82,172                      | 1,292,271                |
| Total fund balances                        | 620,153               | 75,939            | 95,569            | 35,997                | 1,210,099             | 154,680                     | 2,192,437                |
| <b>Total liabilities and fund balances</b> | <b>\$ 658,129</b>     | <b>\$ 81,462</b>  | <b>\$ 98,188</b>  | <b>\$ 104,713</b>     | <b>\$ 1,210,099</b>   | <b>\$ 192,149</b>           | <b>\$ 2,344,740</b>      |

See Accompanying Notes to Financial Statements

**City of Au Gres**  
**Governmental Funds**  
**Reconciliation of Fund Balances of Governmental Funds**  
**to Net Assets of Governmental Activities**  
**June 30, 2007**

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|   |                            |
|---|----------------------------|
| <b>Total fund balances for governmental funds</b>   | <b>\$ 2,192,437</b>        |
| Total net assets for governmental activities in the statement of net assets is different because:   |                            |
| Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.   | 2,309,959                  |
| Certain receivables are not available to pay for current period expenditures and, therefore are deferred in the funds.  | 128,370                    |
| Certain liabilities are not due and payable in the current period and are not reported in the funds.  |                            |
| Accrued interest  | (16,217)                   |
| Compensated absences  | (35,100)                   |
| Long-term liabilities applicable to governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. | (1,879,000)                |
| Internal service funds are included as part of governmental activities.   | <u>104,468</u>             |
| <b>Net assets of governmental activities</b>  | <b><u>\$ 2,804,917</u></b> |

**City of Au Gres**  
**Governmental Funds**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**For the Year Ended June 30, 2007**

|  |                | Special Revenue Funds |                      | Debt<br>Service Fund        |                          |                                   |                                |
|--|----------------|-----------------------|----------------------|-----------------------------|--------------------------|-----------------------------------|--------------------------------|
|  | General        | Major<br>Street Fund  | Local<br>Street Fund | 1998<br>Improvement<br>Fund | Capital<br>Projects Fund | Nonmajor<br>Governmental<br>Funds | Total<br>Governmental<br>Funds |
| <b>Revenues</b>                                      |                |                       |                      |                             |                          |                                   |                                |
| Taxes  | \$ 296,152     | \$ -                  | \$ -                 | \$ -                        | \$ -                     | \$ 104,041                        | \$ 400,193                     |
| Licenses and permits                                 | 4,769          | -                     | -                    | -                           | -                        | -                                 | 4,769                          |
| State revenue sharing                                | 89,638         | -                     | -                    | -                           | -                        | -                                 | 89,638                         |
| Other state grants                                   | -              | 56,384                | 32,918               | -                           | -                        | 2,530                             | 91,832                         |
| Local contributions                                  | -              | 2,000                 | -                    | -                           | 75,000                   | -                                 | 77,000                         |
| Charges for services                                 | 52,385         | 11,116                | -                    | -                           | -                        | -                                 | 63,501                         |
| Interest income                                      | 24,727         | 1,222                 | 1,396                | 164                         | 9,285                    | 11,138                            | 47,932                         |
| Rental income  | 5,800          | -                     | -                    | -                           | -                        | -                                 | 5,800                          |
| Other revenue  | 16,588         | -                     | -                    | 22,291                      | -                        | 21,299                            | 60,178                         |
| Total revenues                                       | <u>490,059</u> | <u>70,722</u>         | <u>34,314</u>        | <u>22,455</u>               | <u>84,285</u>            | <u>139,008</u>                    | <u>840,843</u>                 |
| <b>Expenditures</b>                                  |                |                       |                      |                             |                          |                                   |                                |
| Current  |                |                       |                      |                             |                          |                                   |                                |
| General government                                   | 160,710        | -                     | -                    | -                           | -                        | -                                 | 160,710                        |
| Public safety  | 23,047         | -                     | -                    | -                           | -                        | 80,040                            | 103,087                        |
| Public works   | 129,247        | 29,269                | 16,801               | -                           | 3,233                    | 3,178                             | 181,728                        |
| Recreation and culture                               | 37,585         | -                     | -                    | -                           | -                        | 32,171                            | 69,756                         |
| Other functions                                      | 72,429         | -                     | -                    | -                           | -                        | -                                 | 72,429                         |
| Capital outlay                                       | 2,508          | 33,389                | 21,722               | -                           | 231,979                  | -                                 | 289,598                        |
| Debt service   |                |                       |                      |                             |                          |                                   |                                |
| Principal retirement                                 | 15,000         | 7,000                 | 7,000                | 30,300                      | -                        | 16,000                            | 75,300                         |
| Interest and fiscal charges                          | -              | -                     | -                    | -                           | -                        | 2,383                             | 2,383                          |
| Total expenditures                                   | <u>440,526</u> | <u>69,658</u>         | <u>45,523</u>        | <u>30,300</u>               | <u>235,212</u>           | <u>133,772</u>                    | <u>954,991</u>                 |
| Excess (deficiency) of<br>revenues over expenditures | <u>49,533</u>  | <u>1,064</u>          | <u>(11,209)</u>      | <u>(7,845)</u>              | <u>(150,927)</u>         | <u>5,236</u>                      | <u>(114,148)</u>               |

See Accompanying Notes to Financial Statements

**City of Au Gres**  
**Governmental Funds**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**For the Year Ended June 30, 2007**

|   | <u>Special Revenue Funds</u> |                              |                              | <u>Debt<br/>Service Fund</u>         |                                  | <u>Nonmajor<br/>Governmental<br/>Funds</u> | <u>Total<br/>Governmental<br/>Funds</u> |
|---|------------------------------|------------------------------|------------------------------|--------------------------------------|----------------------------------|--|---|
|   | <u>General</u>               | <u>Major<br/>Street Fund</u> | <u>Local<br/>Street Fund</u> | <u>1998<br/>Improvement<br/>Fund</u> | <u>Capital<br/>Projects Fund</u> |  |   |
| <b>Other financing sources (uses)</b>     |                              |                              |                              |                                      |                                  |  |   |
| Transfers in                              | \$ -                         | \$ -                         | \$ 10,901                    | \$ -                                 | \$ 40,000                        | \$ -                                       | \$ 50,901                               |
| Transfers out                             | (130,000)                    | (10,901)                     | -                            | -                                    | -                                | -  | (140,901)                               |
| Issuance of debt                          | -                            | -                            | -                            | -                                    | 995,000                          | -  | 995,000                                 |
| Total other financing<br>sources and uses | <u>(130,000)</u>             | <u>(10,901)</u>              | <u>10,901</u>                | <u>-</u>                             | <u>1,035,000</u>                 | <u>-</u>                                   | <u>905,000</u>                          |
| Net change in fund balance                | (80,467)                     | (9,837)                      | (308)                        | (7,845)                              | 884,073                          | 5,236                                      | 790,852                                 |
| Fund balance - beginning of year          | <u>700,620</u>               | <u>85,776</u>                | <u>95,877</u>                | <u>43,842</u>                        | <u>326,026</u>                   | <u>149,444</u>                             | <u>1,401,585</u>                        |
| <b>Fund balance - end of year</b>         | <u>\$ 620,153</u>            | <u>\$ 75,939</u>             | <u>\$ 95,569</u>             | <u>\$ 35,997</u>                     | <u>\$ 1,210,099</u>              | <u>\$ 154,680</u>                          | <u>\$ 2,192,437</u>                     |

See Accompanying Notes to Financial Statements

**City of Au Gres**  
**Governmental Funds**  
**Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances**  
**of Governmental Funds to the Statement of Activities**  
**For the Year Ended June 30, 2007**

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**Net change in fund balances - Total governmental funds** \$ 790,852

Total change in net assets reported for governmental activities in the statement of activities  
is different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those  
assets is allocated over their estimated useful lives and reported as depreciation expense.

|                        |          |
|------------------------|----------|
| Depreciation expense   | (97,987) |
| Capital outlay         | 273,365  |
| Sale of capital assets | (6,381)  |

Revenues in the statement of activities that do not provide current financial resources are not reported as revenue  
in the funds.

|                      |          |
|----------------------|----------|
| State shared revenue | (1,282)  |
| Special assessments  | (25,495) |
| Property taxes       | 29,022   |
| Other revenue        | 7,126    |

Expenses are recorded when incurred in the statement of activities

|                      |         |
|----------------------|---------|
| Accrued interest     | (6,042) |
| Compensated absences | (2,340) |

Bond proceeds are reported as financing sources in the governmental funds and thus contribute to the change in  
fund balance. In the statement of net assets, however, issuing debt increases long-term liabilities and does not  
affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds  
but reduces the liability in the statement of net assets.

|                              |           |
|------------------------------|-----------|
| Debt issued                  | (995,000) |
| Repayments of long-term debt | 166,000   |

|   |                 |
|---|-----------------|
| Internal service funds are also included as governmental activities | <u>(10,596)</u> |
|---|-----------------|

|  |                          |
|--|--------------------------|
| <b>Change in net assets of governmental activities</b> | <b><u>\$ 121,242</u></b> |
|--|--------------------------|

See Accompanying Notes to Financial Statements

**City of Au Gres**  
**Proprietary Funds**  
**Statement of Net Assets**  
**June 30, 2007**

|                                    | Enterprise Funds |                  |                |                                       |                  | Internal<br>Service Fund |
|------------------------------------|------------------|------------------|----------------|---------------------------------------|------------------|--------------------------|
|                                    | Sewer            | Water            | Park           | Nonmajor<br>Boat Access<br>and Harbor | Total            |                          |
| <b>Assets</b>                      |                  |                  |                |                                       |                  |                          |
| Current assets                     |                  |                  |                |                                       |                  |                          |
| Cash and cash equivalents          | \$ 10,765        | \$ 56,350        | \$ 23,079      | \$ 10,752                             | \$ 100,946       | \$ 56,590                |
| Receivables                        |                  |                  |                |                                       |                  |                          |
| Customers                          | 28,872           | 29,427           | -              | -                                     | 58,299           | -                        |
| Accrued interest and other         | -                | 1,039            | -              | -                                     | 1,039            | -                        |
| Due from other units of government | -                | 1,595            | -              | -                                     | 1,595            | -                        |
| Due from other funds               | -                | -                | 1,043          | -                                     | 1,043            | -                        |
| Total current assets               | <u>39,637</u>    | <u>88,411</u>    | <u>24,122</u>  | <u>10,752</u>                         | <u>162,922</u>   | <u>56,590</u>            |
| Noncurrent assets                  |                  |                  |                |                                       |                  |                          |
| Restricted assets                  |                  |                  |                |                                       |                  |                          |
| Investments                        | 30,500           | 54,000           | -              | -                                     | 84,500           | -                        |
| Non-depreciable capital assets     | 15,663           | -                | 500            | -                                     | 16,163           | -                        |
| Depreciable capital assets, net    | <u>2,179,031</u> | <u>1,924,752</u> | <u>123,236</u> | <u>-</u>                              | <u>4,227,019</u> | <u>86,186</u>            |
| Total noncurrent assets            | <u>2,225,194</u> | <u>1,978,752</u> | <u>123,736</u> | <u>-</u>                              | <u>4,327,682</u> | <u>86,186</u>            |
| Total assets                       | <u>2,264,831</u> | <u>2,067,163</u> | <u>147,858</u> | <u>10,752</u>                         | <u>4,490,604</u> | <u>142,776</u>           |

See Accompanying Notes to Financial Statements

**City of Au Gres**  
**Proprietary Funds**  
**Statement of Net Assets**  
**June 30, 2007**

|   | Enterprise Funds    |                     |                   |                                       |                  | Internal<br>Service Fund |
|---|---------------------|---------------------|-------------------|---------------------------------------|------------------|--------------------------|
|   | Sewer               | Water               | Park              | Nonmajor<br>Boat Access<br>and Harbor | Total            |                          |
| <b>Liabilities</b>                              |                     |                     |                   |                                       |                  |                          |
| Current liabilities                             |                     |                     |                   |                                       |                  |                          |
| Accounts payable                                | \$ 1,200            | \$ -                | \$ -              | \$ -                                  | \$ 1,200         | \$ -                     |
| Accrued and other liabilities                   | 750                 | 10,186              | -                 | -                                     | 10,936           | 669                      |
| Due to other funds                              | 2,461               | 4,159               | -                 | 26,375                                | 32,995           | 142                      |
| Current portion of noncurrent liabilities       | <u>30,000</u>       | <u>13,000</u>       | <u>-</u>          | <u>-</u>                              | <u>43,000</u>    | <u>19,032</u>            |
| Total current liabilities                       | <u>34,411</u>       | <u>27,345</u>       | <u>-</u>          | <u>26,375</u>                         | <u>88,131</u>    | <u>19,843</u>            |
| Noncurrent liabilities                          |                     |                     |                   |                                       |                  |                          |
| Long-term debt net of current portion           | <u>-</u>            | <u>782,000</u>      | <u>-</u>          | <u>-</u>                              | <u>782,000</u>   | <u>40,705</u>            |
| Total liabilities                               | <u>34,411</u>       | <u>809,345</u>      | <u>-</u>          | <u>26,375</u>                         | <u>870,131</u>   | <u>60,548</u>            |
| <b>Net assets</b>                               |                     |                     |                   |                                       |                  |                          |
| Invested in capital assets, net of related debt | 2,149,031           | 1,129,752           | 123,736           | -                                     | 3,402,519        | 26,449                   |
| Restricted for:                                 |                     |                     |                   |                                       |                  |                          |
| Debt  | 30,500              | 54,000              | -                 | -                                     | 84,500           | -                        |
| Unrestricted (deficit)                          | <u>50,889</u>       | <u>74,066</u>       | <u>24,122</u>     | <u>(15,623)</u>                       | <u>133,454</u>   | <u>55,779</u>            |
| <b>Total net assets (deficit)</b>               | <u>\$ 2,230,420</u> | <u>\$ 1,257,818</u> | <u>\$ 147,858</u> | <u>\$ (15,623)</u>                    | <u>3,620,473</u> | <u>\$ 82,228</u>         |

Some amounts reported for business-type activities in the statement of net assets are different because certain internal service fund assets and liabilities are reported with business-type activities

(22,240)

**Net assets of business-type activities**

\$ 3,598,233

See Accompanying Notes to Financial Statements



**City of Au Gres**  
**Proprietary Funds**  
**Statement of Revenues, Expenses and Changes in Fund Net Assets**  
**For the Year Ended June 30, 2007**

|  | Enterprise Funds |            |           |                           |            |                          |
|--|------------------|------------|-----------|---------------------------|------------|--------------------------|
|  |                  |            |           | Nonmajor                  |            |                          |
|  | Sewer            | Water      | Park      | Boat Access<br>and Harbor | Total      | Internal<br>Service Fund |
| <b>Operating revenue</b>               |                  |            |           |                           |            |                          |
| Customer fees                          | \$ 202,886       | \$ 229,550 | \$ 73,902 | \$ 28,147                 | \$ 534,485 | \$ -                     |
| Billings to other funds                | -                | -          | -         | -                         | -          | 37,732                   |
| Rental income                          | -                | 18,900     | -         | -                         | 18,900     | -                        |
| Other revenue                          | 553              | 17,375     | 1,015     | 325                       | 19,268     | -                        |
| Total operating revenue                | 203,439          | 265,825    | 74,917    | 28,472                    | 572,653    | 37,732                   |
| <b>Operating expenses</b>              |                  |            |           |                           |            |                          |
| Personnel services                     | 138,053          | 89,572     | 72,696    | 16,863                    | 317,184    | 14,776                   |
| Supplies                               | 21,048           | 41,308     | 12,816    | 20,941                    | 96,113     | 14,454                   |
| Contractual services                   | 7,325            | 5,824      | 4,873     | 13,079                    | 31,101     | 4,617                    |
| Utilities                              | 33,955           | 15,990     | 23,229    | 1,101                     | 74,275     | -                        |
| Repairs and maintenance                | 6,486            | 37,793     | 1,135     | -                         | 45,414     | 7,077                    |
| Other expenses                         | 6,794            | 3,307      | -         | 1,795                     | 11,896     | -                        |
| Depreciation                           | 87,461           | 71,274     | 17,246    | -                         | 175,981    | 32,717                   |
| Total operating expenses               | 301,122          | 265,068    | 131,995   | 53,779                    | 751,964    | 73,641                   |
| Operating income (loss)                | (97,683)         | 757        | (57,078)  | (25,307)                  | (179,311)  | (35,909)                 |
| <b>Nonoperating revenue (expenses)</b> |                  |            |           |                           |            |                          |
| Interest income                        | 1,543            | 2,487      | 1,354     | 28                        | 5,412      | 245                      |
| Interest expense                       | (2,000)          | (41,244)   | -         | -                         | (43,244)   | (2,985)                  |
| Total nonoperating revenues (expenses) | (457)            | (38,757)   | 1,354     | 28                        | (37,832)   | (2,740)                  |

See Accompanying Notes to Financial Statements

**City of Au Gres**  
**Proprietary Funds**  
**Statement of Revenues, Expenses and Changes in Fund Net Assets**  
**For the Year Ended June 30, 2007**

|  | Enterprise Funds           |                            |                          |                           |                            |                          |
|--|----------------------------|----------------------------|--------------------------|---------------------------|----------------------------|--------------------------|
|  |                            |                            |                          | Nonmajor                  |                            |                          |
|  | Sewer                      | Water                      | Park                     | Boat Access<br>and Harbor | Total                      | Internal<br>Service Fund |
| Loss before contributions and transfers out  | \$ (98,140)                | \$ (38,000)                | \$ (55,724)              | \$ (25,279)               | \$ (217,143)               | \$ (38,649)              |
| Capital contributions  | 9,575                      | 13,925                     | -                        | -                         | 23,500                     | -                        |
| Transfers in   | <u>-</u>                   | <u>-</u>                   | <u>35,000</u>            | <u>30,000</u>             | <u>65,000</u>              | <u>25,000</u>            |
| Change in net assets   | (88,565)                   | (24,075)                   | (20,724)                 | 4,721                     | (128,643)                  | (13,649)                 |
| Net assets (deficit) - beginning of year   | <u>2,318,985</u>           | <u>1,281,893</u>           | <u>168,582</u>           | <u>(20,344)</u>           |                            | <u>95,877</u>            |
| <b>Net assets (deficit) - end of year</b>  | <u><u>\$ 2,230,420</u></u> | <u><u>\$ 1,257,818</u></u> | <u><u>\$ 147,858</u></u> | <u><u>\$ (15,623)</u></u> |                            | <u><u>\$ 82,228</u></u>  |
| Some amounts reported for business-type activities in the statement of activities are different because the net revenue (expense) of the internal service fund is reported with business-type activities |                            |                            |                          |                           |                            | <u>(3,053)</u>           |
| <b>Change in net assets of business-type activities</b>  |                            |                            |                          |                           | <u><u>\$ (131,696)</u></u> |                          |

See Accompanying Notes to Financial Statements

**City of Au Gres**  
**Proprietary Funds**  
**Statement of Cash Flows**  
**For the Year Ended June 30, 2007**

|   | Enterprise Funds |                  |                  |                        |                   | Internal Service Fund |
|---|------------------|------------------|------------------|------------------------|-------------------|-----------------------|
|   | Sewer            | Water            | Park             | Boat Access and Harbor | Total             | Equipment             |
| <b>Cash flows from operating activities</b>                     |                  |                  |                  |                        |                   |                       |
| Receipts from customers   | \$ 199,536       | \$ 260,940       | \$ 74,917        | \$ 28,472              | \$ 563,865        | \$ -                  |
| Receipts from interfund users                                   | -                | -                | -                | -                      | -                 | 37,732                |
| Receipts from other funds                                       | -                | -                | -                | -                      | -                 | 133                   |
| Payments to other funds   | (246)            | (34,081)         | (2,885)          | (184)                  | (37,396)          | -                     |
| Payments to suppliers   | (77,275)         | (106,658)        | (45,011)         | (37,321)               | (266,265)         | (26,487)              |
| Payments to employees   | (138,053)        | (89,572)         | (72,696)         | (16,863)               | (317,184)         | (14,776)              |
| Payments for interfund services used                            | (1,801)          | (1,414)          | -                | -                      | (3,215)           | -                     |
| Net cash provided (used) by operating activities                | (17,839)         | 29,215           | (45,675)         | (25,896)               | (60,195)          | (3,398)               |
| <b>Cash flows from noncapital financing activities</b>          |                  |                  |                  |                        |                   |                       |
| Transfer from other funds                                       | -                | -                | 35,000           | 30,000                 | 65,000            | 25,000                |
| <b>Cash flows from capital and related financing activities</b> |                  |                  |                  |                        |                   |                       |
| Capital contributions   | 9,575            | 13,925           | -                | -                      | 23,500            | -                     |
| Principal and interest paid on long-term debt                   | (22,000)         | (54,244)         | -                | -                      | (76,244)          | (21,188)              |
| Net cash used by capital and related financing activities       | (12,425)         | (40,319)         | -                | -                      | (52,744)          | (21,188)              |
| <b>Cash flows from investing activities</b>                     |                  |                  |                  |                        |                   |                       |
| Interest received   | 1,543            | 2,487            | 1,354            | 28                     | 5,412             | 245                   |
| Net increase (decrease) in cash and cash equivalents            | (28,721)         | (8,617)          | (9,321)          | 4,132                  | (42,527)          | 659                   |
| Cash and cash equivalents - beginning of year                   | 39,486           | 64,967           | 32,400           | 6,620                  | 143,473           | 55,931                |
| <b>Cash and cash equivalents - end of year</b>                  | <u>\$ 10,765</u> | <u>\$ 56,350</u> | <u>\$ 23,079</u> | <u>\$ 10,752</u>       | <u>\$ 100,946</u> | <u>\$ 56,590</u>      |

See Accompanying Notes to Financial Statements

**City of Au Gres**  
**Proprietary Funds**  
**Statement of Cash Flows**  
**For the Year Ended June 30, 2007**

|  | Enterprise Funds   |                  |                    |                        |                    | Internal Service Fund |
|--|--------------------|------------------|--------------------|------------------------|--------------------|-----------------------|
|  | Sewer              | Water            | Park               | Boat Access and Harbor | Total              | Equipment             |
| <b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities</b> |                    |                  |                    |                        |                    |                       |
| Operating income (loss)  | \$ (97,683)        | \$ 757           | \$ (57,078)        | \$ (25,307)            | \$ (179,311)       | \$ (35,909)           |
| Adjustments to reconcile operating income to net cash from operating activities                      |                    |                  |                    |                        |                    |                       |
| Depreciation and amortization expense  | 87,461             | 71,274           | 17,246             | -                      | 175,981            | 32,717                |
| Changes in assets and liabilities  |                    |                  |                    |                        |                    |                       |
| Receivables (net)  | (3,903)            | (4,727)          | -                  | -                      | (8,630)            | -                     |
| Due from other units of government   | -                  | (158)            | -                  | -                      | (158)              | -                     |
| Prepaid items  | -                  | -                | -                  | (405)                  | (405)              | -                     |
| Accounts payable   | (2,968)            | (3,684)          | -                  | -                      | (6,652)            | (135)                 |
| Accrued and other liabilities  | 750                | (166)            | (2,958)            | (184)                  | (2,558)            | (204)                 |
| Due to other funds   | (246)              | (34,081)         | -                  | -                      | (34,327)           | 133                   |
| Due to component unit  | -                  | -                | (2,885)            | -                      | (2,885)            | -                     |
| Due to other units of government   | (1,250)            | -                | -                  | -                      | (1,250)            | -                     |
| <b>Net cash provided (used) by operating activities</b>  | <u>\$ (17,839)</u> | <u>\$ 29,215</u> | <u>\$ (45,675)</u> | <u>\$ (25,896)</u>     | <u>\$ (60,195)</u> | <u>\$ (3,398)</u>     |

See Accompanying Notes to Financial Statements

**City of Au Gres**  
**Fiduciary Funds**  
**Statement of Net Assets**  
**June 30, 2007**

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|   | Pension and Other<br>Employee Benefits<br>Trust Fund |                 |
|---|--|-----------------|
|   | Defined<br>Contribution<br>Plan                      | Agency<br>Funds |
| <b>Assets</b>   |  |                 |
| Cash and cash equivalents                             | \$ -   | \$ 1,213        |
| Investments   | <u>72,522</u>  | <u>-</u>        |
| Total assets  | <u>72,522</u>  | <u>\$ 1,213</u> |
| <b>Liabilities</b>                                    |  |                 |
| Accrued and other liabilities                         | <u>-</u>   | <u>\$ 1,213</u> |
| <b>Net assets</b>                                     |  |                 |
| Held in trust for pension benefits and other purposes | <u>\$ 72,522</u>                                     |                 |

See Accompanying Notes to Financial Statements

**City of Au Gres**  
**Fiduciary Funds**  
**Statement of Changes in Net Assets**  
**For the Year Ended June 30, 2007**

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|                                 | Pension and Other<br>Employee Benefits<br>Trust Fund |
|---------------------------------|--|
|                                 | <u>Defined<br/>Contribution<br/>Plan</u>             |
| <b>Additions</b>                |  |
| Contributions                   |  |
| Employer                        | \$ 8,705   |
| Plan members                    | <u>670</u>   |
| Total contributions             | <u>9,375</u>   |
| <b>Investment earnings</b>      |  |
| Interest                        | <u>10,526</u>  |
| Change in net assets            | 19,901   |
| Net assets - beginning of year  | <u>52,621</u>  |
| <b>Net assets - end of year</b> | <u><u>\$ 72,522</u></u>                              |

See Accompanying Notes to Financial Statements

**City of Au Gres**  
**Notes to Financial Statements**  
**June 30, 2007**

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**Note 1 - Summary of Significant Accounting Policies**

**Reporting Entity**

City of Au Gres is governed by an elected five-member Board. The accompanying financial statements present the government and its component unit, an entity for which the government is considered to be financially accountable. The discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the government (see discussion below for description).

**Discretely Presented Component Units** – The component unit column in the entity wide financial statements include the financial data of the City's Tax Increment Financing Authority. This unit is reported in a separate column to emphasize that it is legally separate from the City. The members of the Governing Board of the Tax Increment Financing Authority are appointed by the City Council. The budgets and expenditures of the Tax Increment Financing Authority must be approved by the City Council. The City also has the ability to significantly influence operations of the Tax Increment Financing Authority. The Tax Increment Financing Authority does not issue any other form of financial statements except as contained in the City of Au Gres' annual financial statements.

**Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the non fiduciary activities of the primary government and its component units. *Government activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

**Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this

**City of Au Gres**  
**Notes to Financial Statements**  
**June 30, 2007**

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purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, sales taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Major Street Fund accounts for the maintenance and improvement activities for streets designated as "major" within the City. Funding is primarily through state shared gas and weight taxes.

The Local Street Fund accounts for maintenance and improvement activities for streets designated as "local" within the City. Funding is primarily through state shared gas and weight taxes.

The 1998 Improvement Debt Service Fund records accounts for special assessments to City residents and payments made to cover special assessment bonds.

The Capital Projects Fund records the revenue and expense related to the capital project.

The government reports the following major proprietary funds:

The Sewer Fund accounts for the activities of the sewage collection system.

The Water Fund accounts for the activities of the water distribution system.

The Park Fund accounts for the costs of maintaining a park and recreation program.

Additionally, the government reports the following:

The nonmajor special revenue funds account for the proceeds of specific revenue sources requiring separate accounting because of legal or regulatory provisions or administrative requirements.

The debt service funds account for the accumulation of resources for, and payment of governmental activities principal, interest and related costs.

The nonmajor Capital Projects Fund records the revenue and expense related to the capital project.

The Boat Access and Harbor Fund records accounts for a lease agreement with the State of Michigan to operate the Federal Harbor of Refuge, State Boat Docks and the State Boat Launch.

The Internal Service Fund accounts for major machinery and equipment purchases and maintenance provided to other departments of the government on a cost reimbursement basis. The Pension and Employee Benefit Trust Fund accounts for the



**City of Au Gres**  
**Notes to Financial Statements**  
**June 30, 2007**

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activities of the defined contribution pension plan which accumulates resources for pension payments to qualified employees.

The Agency Fund accounts for property tax and other deposits collected on behalf of other units and individuals.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes where the amounts are reasonably equivalent in value to the interfund services provided and other charges between the government's water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally

result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the sewer and water funds and the internal service funds are charges to customers for sales and services. The government also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for sewer and water funds and the internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

**Assets, Liabilities, and Net Assets or Equity**

Deposits and investments – Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value based on quoted market price. Certificate of deposits are stated at cost which approximates fair value.

Receivables and payables – In general, outstanding balances between funds are reported as “due to/from other funds.” Activity between funds that is representative of lending/borrowing arrangement outstanding at the end of the fiscal year is referred to as “advances to/from other funds.” Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as “internal balances.”

**City of Au Gres**  
**Notes to Financial Statements**  
**June 30, 2007**

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All trade and property tax receivables are shown as net of allowance for uncollectible amounts. Property taxes are levied on each July 1<sup>st</sup> on the taxable valuation of property as of the preceding December 31<sup>st</sup>. Taxes are considered delinquent on March 1<sup>st</sup> of the following year, at which time penalties and interest are assessed.

The 2006 taxable valuation of the government totaled \$36,650,140, on which ad valorem taxes consisted of 12.4445 mills for operating purposes, 3.0613 for police protection services and 0.3554 for debt service. This resulted in \$271,465 for operating expenses, \$66,779 for police protection and \$7,752 for debt service, exclusive of any Michigan Tax Tribunal or Board of Review adjustments.

**Restricted assets** – Certain revenue bonds of the Enterprise Funds require amounts to be set aside for a bond reserve. These amounts have been classified as restricted investments.

**Capital assets** – Capital assets, which include property, plant and equipment, are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$ 1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost, if purchased or constructed.

The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or extend its useful life beyond the original estimate. In the case of donations the government values these capital assets at the estimated fair value of the item at the date of its donation.

Property, plant and equipment are depreciated using the straight-line method over the following useful lives:

|                       |                |
|-----------------------|----------------|
| Vehicles              | 3 to 5 years   |
| Office equipment      | 5 to 7 years   |
| Computer equipment    | 3 to 7 years   |
| Land improvements     | 10 to 20 years |
| Roads                 | 25 years       |
| Other infrastructure  | 20 to 40 years |
| Heavy duty equipment  | 20 to 40 years |
| Buildings             | 40 to 60 years |
| Building improvements | 15 to 30 years |
| Water and sewer lines | 50 to 75 years |

**Compensated absences** – Full time employees receive 10 sick days for each full year of service and can carry forward 75 days each year. The excess of 75 days will be paid one-half at each anniversary date. The City will also pay one-half of accumulated sick leave upon retirement or death. Other reasons for termination will not be reimbursed for accumulated sick leave. There is no contractual provision for payment of unused vacation. They may be used for vacation only. All sick pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in the governmental funds only for terminations as of year end.

**Long-term obligations** – In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

**City of Au Gres**  
**Notes to Financial Statements**  
**June 30, 2007**

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund equity – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**Comparative Data**

Comparative data is not included in the government's financial statements.

**Note 2 - Stewardship, Compliance, and Accountability**

**Budgetary Information**

The City is subject to the budgetary control requirements of the Uniform Budgeting Act (P.A. 621 of 1978, as amended). Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General Fund and all Special Revenue Funds. All annual appropriations lapse at fiscal year end.

The budget document presents information by fund, activity, department, and line items. The legal level of budgetary control adopted by the governing body is the activity level. The City Manager is authorized to transfer budgeted amounts between line items within an activity; however, any revisions that alter the total expenditures of an activity must be approved by the City Council.

Amounts encumbered for purchase orders, contracts, etc. are not tracked during the year. Budget appropriations are considered to be spent when goods are received or services rendered.

The City incurred expenditures of \$20,085 in excess of budget for recreation and culture in the General Fund.

The component unit overspent the adopted budget for community and economic development by \$132,359.

**Deficit Fund Equity**

The City has accumulated a net assets deficit in the Boat Access and Harbor Fund. The deficit is the result of start up costs and will be recovered through fees.

**Note 3 - Deposits and Investments**

At year end the government's deposits and investments were reported in the basic financial statements in the following categories:

|                          | Cash and Cash<br>Equivalents | Investments       | Restricted<br>Investments |
|--------------------------|------------------------------|-------------------|---------------------------|
| Governmental activities  | \$ 2,166,800                 | \$ 30,600         | \$ -                      |
| Business-type activities | 100,946                      | -                 | 84,500                    |
| Total primary government | 2,267,746                    | 30,600            | 84,500                    |
| Fiduciary funds          | 1,213                        | 72,522            | -                         |
| Component unit           | 131,300                      | -                 | -                         |
| Total                    | <u>\$ 2,400,259</u>          | <u>\$ 103,122</u> | <u>\$ 84,500</u>          |

**City of Au Gres**  
**Notes to Financial Statements**  
**June 30, 2007**

The break down between deposits and investments is as follows:

|  | Primary<br>Government | Fiduciary<br>Funds | Component Unit    |
|--|-----------------------|--------------------|-------------------|
| Bank deposits (checking and savings accounts, money markets and certificates of deposit) | \$ 2,352,146          | \$ 1,213           | \$ 131,300        |
| Investments in securities, mutual funds and similar vehicles                             | 30,600                | 72,522             | -                 |
| Petty cash and cash on hand  | 100                   | -                  | -                 |
|  | <u>\$ 2,382,846</u>   | <u>\$ 73,735</u>   | <u>\$ 131,300</u> |

As of year end, the government had the following investments:

| <u>Investment</u> | <u>Fair Value</u> | <u>Rating</u> |
|-------------------|-------------------|---------------|
| IBM               | \$ 18,773         | Not rated     |
| Exxon Mobil       | 11,827            | Not rated     |
| Mutual funds      | <u>72,522</u>     | Not rated     |
|                   | <u>\$ 103,122</u> |               |

The stock was donated to the City to cover costs of the Library. The stock can be sold or used to generate investment income. There were no restrictions on its use other than to be used for the Library. The stock certificates are held by the City.

*Interest rate risk* – The government does not have a formal investment policy to manage its exposure to fair value losses from changes in interest rates.

*Credit risk* – State statutes and the government's investment policy authorize the government to make deposits and invest in the accounts

of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The local unit is allowed to invest in bonds, securities and other obligations of the United States, or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; bankers acceptance of United States Banks; commercial paper rated within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or any of its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The pension trust funds are also authorized by Michigan Public Act 485 of 1996 (as amended) to invest in certain reverse repurchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, real estate (if the trust fund's assets exceed \$250 million), debt or equity of certain small businesses, certain state and local government obligations, and certain other specified investment vehicles.

*Concentration of credit risk* – The government has no policy that would limit the amount that may be issued in any one issuer.

*Custodial credit risk - deposits* – In the case of deposits, this is the risk that in the event of bank failure, the government's deposits may not be returned to it. The government's deposit policy limits use to two (2) banks. The government does not have a policy for custodial credit risk. As of year end, \$ 2,400,400 was exposed to custodial credit risk because it was uninsured and uncollateralized.

### **Receivables and Deferred Revenue**

The only receivables not expected to be collected within one year are as follows:

**City of Au Gres**  
**Notes to Financial Statements**  
**June 30, 2007**

|                           | Due After One<br>Year | Fund              |
|---------------------------|-----------------------|-------------------|
| <b>Primary government</b> |                       |                   |
| Special assessments       | <u>\$ 67,745</u>      | 1998 Improvements |

Governmental funds report deferred revenue in connection with receivables for revenue that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

|                           |                    |
|---------------------------|--------------------|
|                           | <b>Unavailable</b> |
| <b>Primary government</b> |                    |
| State shared revenue      | \$ 15,873          |
| Special assessments       | 76,349             |
| Property taxes            | 29,022             |
| Other revenue             | <u>7,126</u>       |
|                           | <b>\$ 128,370</b>  |

### Note 5 - Capital Assets

Capital assets activity of the primary government for the current year was as follows:

|   | Beginning<br>Balance | Increases         | Decreases       | Ending<br>Balance   |
|---|----------------------|-------------------|-----------------|---------------------|
| <b>Governmental activities</b>              |                      |                   |                 |                     |
| Capital assets not being depreciated        |                      |                   |                 |                     |
| Land  | \$ 393,460           | \$ -              | \$ 6,381        | \$ 387,069          |
| Capital assets being depreciated            |                      |                   |                 |                     |
| Land improvements                           | 276,905              | 10,476            | -               | 287,381             |
| Infrastructure                              | 209,970              | 262,889           | -               | 472,859             |
| Buildings, additions and improvements       | 1,298,637            | -                 | -               | 1,298,637           |
| Machinery and equipment                     | 700,864              | -                 | -               | 700,864             |
| Total capital assets being depreciated      | <u>2,486,376</u>     | <u>273,365</u>    | <u>-</u>        | <u>2,759,741</u>    |
| Less accumulated depreciation for           |                      |                   |                 |                     |
| Land improvements                           | 72,845               | 18,734            | -               | 91,579              |
| Infrastructure                              | 16,620               | 10,153            | -               | 26,773              |
| Buildings, additions and improvements       | 116,658              | 38,168            | -               | 154,826             |
| Machinery and equipment                     | 413,838              | 63,649            | -               | 477,487             |
| Total accumulated depreciation              | <u>619,961</u>       | <u>130,704</u>    | <u>-</u>        | <u>750,665</u>      |
| Net capital assets being depreciated        | <u>1,866,415</u>     | <u>142,661</u>    | <u>-</u>        | <u>2,009,076</u>    |
| Governmental activities capital assets, net | <u>\$ 2,259,865</u>  | <u>\$ 142,661</u> | <u>\$ 6,381</u> | <u>\$ 2,396,145</u> |

|  | Beginning<br>Balance | Increases           | Decreases   | Ending<br>Balance   |
|--|----------------------|---------------------|-------------|---------------------|
| <b>Business-type activities</b>        |                      |                     |             |                     |
| Capital assets not being depreciated   |                      |                     |             |                     |
| Land                                   | \$ 16,163            | \$ -                | \$ -        | \$ 16,163           |
| Capital assets being depreciated       |                      |                     |             |                     |
| Land improvements                      | 305,782              | -                   | -           | 305,782             |
| Buildings, additions and improvements  | 32,088               | -                   | -           | 32,088              |
| Machinery and equipment                | 41,571               | -                   | -           | 41,571              |
| Vehicles                               | 35,650               | -                   | -           | 35,650              |
| Water system                           | 2,974,746            | -                   | -           | 2,974,746           |
| Sewer system                           | 3,659,410            | -                   | -           | 3,659,410           |
| Total capital assets being depreciated | <u>7,049,247</u>     | <u>-</u>            | <u>-</u>    | <u>7,049,247</u>    |
| Less accumulated depreciation for      |                      |                     |             |                     |
| Land improvements                      | 175,522              | 15,289              | -           | 190,811             |
| Buildings, additions and improvements  | 27,352               | 547                 | -           | 27,899              |
| Machinery and equipment                | 34,578               | 2,397               | -           | 36,975              |
| Vehicles                               | 33,651               | 1,999               | -           | 35,650              |
| Water system                           | 980,719              | 69,275              | -           | 1,049,994           |
| Sewer system                           | 1,394,425            | 86,474              | -           | 1,480,899           |
| Total accumulated depreciation         | <u>2,646,247</u>     | <u>175,981</u>      | <u>-</u>    | <u>2,822,228</u>    |
| Net capital assets being depreciated   | <u>4,403,000</u>     | <u>(175,981)</u>    | <u>-</u>    | <u>4,227,019</u>    |
| Business-type capital assets, net      | <u>\$ 4,419,163</u>  | <u>\$ (175,981)</u> | <u>\$ -</u> | <u>\$ 4,243,182</u> |

Depreciation expense was charged to programs of the primary government as follows:

|  |                |
|--|----------------|
| <b>Governmental activities</b>   |                |
| General government   | \$ 21,557      |
| Public safety  | 8,819          |
| Public works   | 29,396         |
| Recreation and culture   | 38,215         |
| Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets | <u>32,717</u>  |
| Total governmental activities  | <u>130,704</u> |

**City of Au Gres**  
**Notes to Financial Statements**  
**June 30, 2007**

**Business-type activities**

|                                |                   |
|--------------------------------|-------------------|
| Sewer                          | \$ 87,461         |
| Water                          | 71,274            |
| Park                           | <u>17,246</u>     |
| Total business-type activities | <u>175,981</u>    |
| Total primary government       | <u>\$ 306,685</u> |

**Note 6 - Interfund Receivables, Payable, and Transfers**

The composition of interfund balances is as follows:

| <u>Receivable Fund</u>         | <u>Payable Fund</u>   | <u>Amount</u>    |
|--------------------------------|-----------------------|------------------|
| <b>Due from/to other funds</b> |                       |                  |
| General                        | Major Street          | \$ 80            |
| General                        | Local Street          | 35               |
| General                        | Sewer                 | 2,461            |
| General                        | Water                 | 4,159            |
| General                        | Nonmajor funds        | 26,375           |
| General                        | Internal Service Fund | 142              |
| Local Street                   | Major Street          | 901              |
| Nonmajor funds                 | General               | 198              |
| Park                           | General               | <u>1,043</u>     |
|                                |                       | <u>\$ 35,394</u> |

The outstanding balances between funds result mainly from the time lag between the dates that 1) interfund goods and services are provided or reimbursable expenditures occur, 2) transactions are recorded in the accounting system, and 3) payments between funds are made.

The composition of amount due to/from primary government and component unit are as follows:

Component unit details

| <u>Receivable Fund</u>         | <u>Payable Fund</u>     | <u>Amount</u> |
|--------------------------------|-------------------------|---------------|
| <b>Due from/to other funds</b> |                         |               |
| Component Unit                 | 1998 Building Authority | <u>\$ 814</u> |

The details for interfund transfers are as follows:

| <u>Funds Transferred From</u> | <u>Funds Transferred To</u> | <u>Amount</u>     |
|-------------------------------|-----------------------------|-------------------|
| General                       | Capital Projects            | \$ 40,000         |
| General                       | Park                        | 35,000            |
| General                       | Nonmajor funds              | 30,000            |
| General                       | Internal Service Fund       | 25,000            |
| Major Street                  | Local Street                | <u>10,901</u>     |
|                               |                             | <u>\$ 140,901</u> |

Transfers are used to move unrestricted general fund revenues to finance various programs that the government must account for in other funds in accordance with budgetary authorizations, including amounts provided as subsidies or matching funds for various grant programs. Annually, Major Street dollars are transferred to Local Street for local street projects. In addition, library construction funds were transferred to the capital project fund.

**Note 7 - Lease**

**Capital Lease**

The City has entered into a lease agreement as lessee for financing the purchase of a street sweeper. This lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of the future minimum lease payments as of the inception date. The future minimum lease payments are as follows:

**City of Au Gres**  
**Notes to Financial Statements**  
**June 30, 2007**

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|   |                       |
|---|-----------------------|
| <u>Year ending December 31,</u>             |                       |
| 2008  | \$ 19,885             |
| 2009  | 20,791                |
| 2010  | <u>21,738</u>         |
| Total minimum lease payments                | 62,414                |
| Less amount representing interest           | <u>2,677</u>          |
| <br>Present value of minimum lease payments | <br>\$ 59,737         |
| <br>Asset                                   |                       |
| Machinery and equipment                     | \$ 165,000            |
| Less accumulated depreciation               | <u>55,000</u>         |
| <br>Total                                   | <br><u>\$ 110,000</u> |

**City of Au Gres**  
**Notes to Financial Statements**  
**June 30, 2007**

**Note 8 - Long-Term Debt**

The government issues bonds to provide for the acquisition and construction of major capital projects. General obligation bonds are direct obligations and pledge the full faith and credit of the government. Installment purchase agreements are also general obligations of the government. Special Assessment bonds provide for capital improvements that benefit specific parties, and will be repaid from amounts levied against those properties benefited from the construction. In the event that a deficiency exists because of unpaid or delinquent special assessments at the time a debt service payment is due, the City is obligated to provide resources to cover the deficiency until other resources (such as tax sale proceeds or a re-assessment of the City) are received. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service. Other long-term obligations include compensated absences. Compensated absences are typically liquidated with funds from the General Fund.

Long-term obligation activity is summarized as follows:

|                                  | Amount of<br>Issue | Maturity<br>Date | Interest<br>Rate<br>Ranges | Principal<br>Maturity<br>Ranges | Beginning<br>Balance | Additions  | Reductions | Ending<br>Balance | Due Within<br>One Year |
|----------------------------------|--------------------|------------------|----------------------------|---------------------------------|----------------------|------------|------------|-------------------|------------------------|
| <b>Governmental activities</b>   |                    |                  |                            |                                 |                      |            |            |                   |                        |
| Bonds and notes payable          |                    |                  |                            |                                 |                      |            |            |                   |                        |
| General obligation bonds         |                    |                  |                            |                                 |                      |            |            |                   |                        |
| Sewage Disposal System           | \$ 150,000         | 1/10/10          | 5.000%                     | \$6,000                         | \$ 24,000            | \$ -       | \$ 6,000   | \$ 18,000         | \$ 6,000               |
| Limited Tax, Series 1996         | 725,000            | 6/1/11           | 5.550-5.650%               | \$50,000 - \$75,000             | 275,000              | -          | 50,000     | 225,000           | 50,000                 |
| City Improvement Bonds           | 995,000            | 5/1/22           | 3.850-4.400%               | \$50,000 - \$90,000             | -                    | 995,000    | -          | 995,000           | 50,000                 |
| Special assessment obligations   |                    |                  |                            |                                 |                      |            |            |                   |                        |
| East Saginaw Street              | 91,000             | 10/1/07          | 5.400%                     | \$6,000                         | 12,000               | -          | 6,000      | 6,000             | 6,000                  |
| Ashdale, Series 1998             | 41,000             | 10/1/07          | 4.950%                     | \$5,000                         | 9,000                | -          | 4,000      | 5,000             | 5,000                  |
| Series 1996                      | 705,000            | 6/1/11           | 5.550-5.600%               | \$50,000 - \$55,000             | 255,000              | -          | 50,000     | 205,000           | 50,000                 |
| Building authority revenue bonds |                    |                  |                            |                                 |                      |            |            |                   |                        |
| 1999                             | 675,000            | 9/1/14           | 4.400-4.700%               | \$50,000 - \$75,000             | 475,000              | -          | 50,000     | 425,000           | 50,000                 |
| Total bonds payable              |                    |                  |                            |                                 | 1,050,000            | 995,000    | 166,000    | 1,879,000         | 217,000                |
| Capital leases                   |                    |                  |                            |                                 |                      |            |            |                   |                        |
| 2004 Street Sweeper              | 112,000            | 5/12/10          | 4.480%                     | \$19,032 - \$20,806             | 77,940               | -          | 18,203     | 59,737            | 19,032                 |
| Compensated absences             |                    |                  |                            |                                 | 32,760               | 2,340      | -          | 35,100            | -                      |
| Total governmental activities    |                    |                  |                            |                                 | \$ 1,160,700         | \$ 997,340 | \$ 184,203 | \$ 1,973,837      | \$ 236,032             |
| <b>Business-type activities</b>  |                    |                  |                            |                                 |                      |            |            |                   |                        |
| Bonds and notes payable          |                    |                  |                            |                                 |                      |            |            |                   |                        |
| Revenue bonds                    |                    |                  |                            |                                 |                      |            |            |                   |                        |
| Water                            | \$ 913,000         | 4/1/35           | 5.125%                     | \$13,000 - \$51,000             | \$ 808,000           | \$ -       | \$ 13,000  | \$ 795,000        | \$ 13,000              |
| Sewer                            | 450,000            | 1/1/08           | 5.000%                     | \$30,000                        | 50,000               | -          | 20,000     | 30,000            | 30,000                 |
| Total business-type activities   |                    |                  |                            |                                 | \$ 858,000           | \$ -       | \$ 33,000  | \$ 825,000        | \$ 43,000              |



**City of Au Gres**  
**Notes to Financial Statements**  
**June 30, 2007**

Annual debt service requirements to maturity for the above obligations are as follows:

| Year Ending<br>June 30, | Governmental Activities |                   | Business-type Activities |                   |
|-------------------------|-------------------------|-------------------|--------------------------|-------------------|
|                         | Principal               | Interest          | Principal                | Interest          |
| 2008                    | \$ 217,000              | \$ 86,401         | \$ 43,000                | \$ 40,994         |
| 2009                    | 206,000                 | 76,017            | 14,000                   | 40,078            |
| 2010                    | 206,000                 | 65,942            | 15,000                   | 39,360            |
| 2011                    | 235,000                 | 55,816            | 16,000                   | 38,181            |
| 2012                    | 135,000                 | 43,995            | 16,000                   | 37,336            |
| 2013-2017               | 475,000                 | 140,766           | 95,000                   | 175,532           |
| 2018-2022               | 405,000                 | 54,875            | 122,000                  | 148,574           |
| 2023-2027               | -                       | -                 | 157,000                  | 113,930           |
| 2028-2032               | -                       | -                 | 200,000                  | 69,444            |
| 2033-2035               | -                       | -                 | 147,000                  | 15,273            |
|                         | <b>\$ 1,879,000</b>     | <b>\$ 523,812</b> | <b>\$ 825,000</b>        | <b>\$ 718,702</b> |

**Note 9 - Jointly Governed Organizations**

**Au Gres – Sims Fire Authority**

The City of Au Gres is a member of an inter-governmental agreement to operate a joint fire authority with Sims, Au Gres, and Whitney Townships. The participating communities provide annual funding for its operations. During the current year, the City's portion was fulfilled through property taxes of \$20,726 for operations. The City is unaware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future. Complete financial statements for the year ended March 31, 2007 can be obtained from the administrative offices at: 201 N. Court, Au Gres, Michigan 48703.

**Au Gres – Sims Police Board**

The City of Au Gres is a member of a cooperation agreement with Sims Township. The participating communities provide annual

funding for its operations. During the current year, the City contributed \$78,602 for its operations. The City is unaware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future. Complete financial statements for the year ended June 30, 2007 can be obtained from the administrative offices at: P.O. Box 121, Au Gres, Michigan 48703.

**Note 10 - Risk Management**

The government is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries (workers' compensation), as well as medical benefits provided to employees. The government has purchased commercial insurance for all claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

**Note 11 - Employee Retirement and Benefit Systems**

**Defined Benefit Pension Plan**

Plan description – The government participates in the Michigan Municipal Employees' Retirement System (MERS), an agent multiple-employer defined benefit pension plan that covers all employees of the government. The system provides retirement, disability and death benefits to plan members and their beneficiaries. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to MERS at 447 N. Canal Rd., Lansing, Michigan 48917.

Funding policy – The obligation to contribute to and maintain the system for these employees was established by negotiation with the government's competitive bargaining units and requires a contribution from the employees of 6 percent of gross wages for General, and Police and Fire employees.

**City of Au Gres**  
**Notes to Financial Statements**  
**June 30, 2007**

Annual pension costs – For year ended June 30, 2007, the government's annual pension cost of \$77,560 for the plan was equal to the required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2006, using the actual age cost method. Significant actuarial assumptions used include: 1) a 8.0% investment rate of return; 2) projected salary increases of 4.5% percent per year; and 3) 3.5% percent per year cost of living adjustments. Both determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percent of payroll on a closed basis. The remaining amortization period is 30 years.

Three year trend information as of December 31, 2006 follows:

|   | 2006      | 2005      | 2004      |
|---|-----------|-----------|-----------|
| Annual pension cost                     | \$ 73,801 | \$ 75,721 | \$ 77,480 |
| Percentage of APC contributed           | 100%      | 100%      | 100%      |
| Actuarial value of assets               | 1,098,437 | 993,358   | 904,245   |
| Actuarial accrued liabilities           | 1,726,348 | 1,651,985 | 1,637,360 |
| Unfunded AAL                            | 627,911   | 658,627   | 733,115   |
| Funded ratio                            | 64.0%     | 60.0%     | 55.0%     |
| Covered payroll                         | 285,792   | 280,246   | 278,652   |
| UAAL as a percentage of covered payroll | 220%      | 235%      | 263%      |

**Defined Contribution Pension Plan**

The City of Au Gres Public Employees Retirement System (PERS) is a single employer PERS that administers the City's defined contribution pension plan for its employees. The PERS prepares and distributes separate financial statements as required by state statute but its financial statements are also included as an expendable trust fund of the City of Au Gres. The City of Au Gres is the only nonemployee contributor to the pension plan. Certain employees are covered by the defined contribution plan. As of June 30, 2007, the

pension plan's membership was three employees.

A defined contribution pension plan provides pension benefits in return for services rendered, provides an individual account for each participant, and specifies how contributions to the individual's account are to be determined instead of specifying the amount of benefits the individual is to receive. Under a defined contribution pension plan, the benefits a participant will receive depend solely on the amount contributed to the participant's account, the returns earned on investments of those contributions, and forfeitures of other participants' benefits that may be allocated to such participant's account. As established by state statute, all full-time municipal employees of the City must participate in the pension plan from the date they are hired. The City is required to contribute an amount equal to 6.0% of the employee's gross earnings.

**Note 12 - Contingent Liabilities**

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the government expects such amounts, if any, to be immaterial.

**Note 13 - Upcoming Accounting and Reporting Changes**

The Governmental Accounting Standards Board has recently released statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost

**City of Au Gres**  
**Notes to Financial Statements**  
**June 30, 2007**

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of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending June 30, 2010.

The Government Accounting Standards Board has issued Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*. This Statement establishes criteria that governments will use to ascertain whether the proceeds received should be reported as revenue or as a liability. The criteria should be used to determine the extent to which a transferor government either retains or relinquishes control over the receivables or future revenues through its continuing involvement with those receivables or future revenues. This Statement establishes that a transaction will be reported as a collateralized borrowing unless the criteria indicating that a sale has taken place are met. If it is determined that a transaction involving *receivables* should be reported as a sale, the difference between the carrying value of the receivables and the proceeds should be recognized in the period of the sale in the change statements. If it is determined that a transaction involving future revenues should be reported as a sale, the revenue should be deferred and amortized, except when specific criteria are met. This Statement also provides additional guidance for sales of receivables and future revenues within the same financial reporting entity. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2006.

The Government Accounting Standards Board has issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. This statement addresses how to account for pollution remediation activities of the effects of *existing* pollution. It does not include *prevention* or *control* activities nor future remediation required upon retirement of an asset. In general, a liability will be recorded based on the *current value* of expected costs as estimated using the *expected cash flows method*. This statement is effective for financial

statements with periods ending after December 15, 2007. However, measurement is required as of the beginning of the period.

## REQUIRED SUPPLEMENTAL INFORMATION

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**City of Au Gres**  
**Required Supplemental Information**  
**Budgetary Comparison Schedule**  
**General Fund**  
**For the Year Ended June 30, 2007**

|                          | Budgeted Amounts |            |            | Actual<br>Over (Under)<br>Final<br>Budget |
|--------------------------|------------------|------------|------------|---|
|                          | Original         | Final      | Actual     |   |
| <b>Revenues</b>          |                  |            |            |   |
| Taxes                    |                  |            |            |   |
| Property taxes           | \$ 279,000       | \$ 279,000 | \$ 271,845 | \$ (7,155)                                |
| Other taxes              | 108              | 108        | 2,005      | 1,897                                     |
| Penalties and interest   | 4,500            | 4,500      | 3,627      | (873)                                     |
| Administration fee       | 18,000           | 18,000     | 18,675     | 675                                       |
| Licenses and permits     | 5,000            | 5,000      | 4,769      | (231)                                     |
| State revenue sharing    | 91,300           | 91,300     | 89,638     | (1,662)                                   |
| Charges for services     | 42,300           | 42,300     | 52,385     | 10,085                                    |
| Interest income          | 22,000           | 22,000     | 24,727     | 2,727                                     |
| Rental income            | 350              | 350        | 5,800      | 5,450                                     |
| Other revenue            | 1,136            | 1,136      | 16,588     | 15,452                                    |
|                          |                  |            |            |   |
| Total revenues           | 463,694          | 463,694    | 490,059    | 26,365                                    |
|                          |                  |            |            |   |
| <b>Expenditures</b>      |                  |            |            |   |
| General government       |                  |            |            |   |
| City Council             | 10,000           | 10,000     | 10,268     | 268                                       |
| Manager                  | 34,300           | 43,300     | 38,637     | (4,663)                                   |
| Clerk                    | 68,500           | 68,500     | 60,485     | (8,015)                                   |
| Board of review          | 2,400            | 2,400      | 1,651      | (749)                                     |
| Assessor                 | 25,000           | 25,000     | 21,566     | (3,434)                                   |
| Elections                | 6,000            | 6,000      | 3,390      | (2,610)                                   |
| Buildings and grounds    | 33,600           | 33,600     | 19,185     | (14,415)                                  |
| Attorney                 | 7,000            | 7,000      | 2,625      | (4,375)                                   |
| Cemetery                 | 5,000            | 5,000      | 2,903      | (2,097)                                   |
|                          |                  |            |            |   |
| Total general government | 191,800          | 200,800    | 160,710    | (40,090)                                  |

**City of Au Gres**  
**Required Supplemental Information**  
**Budgetary Comparison Schedule**  
**General Fund**  
**For the Year Ended June 30, 2007**

|   | Budgeted Amounts  |                   |                   | Actual<br>Over (Under)<br>Final<br>Budget |
|---|-------------------|-------------------|-------------------|---|
|   | Original          | Final             | Actual            |   |
| Public safety                                     |                   |                   |                   |   |
| Police  | \$ 11,000         | \$ 30,000         | \$ 23,047         | \$ (6,953)                                |
| Public works                                      |                   |                   |                   |   |
| Department of public works                        | 43,400            | 43,400            | 38,960            | (4,440)                                   |
| Drains  | -                 | -                 | 232               | 232                                       |
| Street lighting                                   | 33,000            | 33,000            | 33,166            | 166                                       |
| Sanitary land fill                                | 60,100            | 60,100            | 56,889            | (3,211)                                   |
| Total public works                                | 136,500           | 136,500           | 129,247           | (7,253)                                   |
| Recreation and culture                            |                   |                   |                   |   |
| Parks and recreation                              | 17,000            | 17,000            | 37,085            | 20,085                                    |
| Library   | 500               | 500               | 500               | -   |
| Total recreation and culture                      | 17,500            | 17,500            | 37,585            | 20,085                                    |
| Other functions                                   |                   |                   |                   |   |
| Insurance and bonds                               | 18,000            | 18,000            | 10,251            | (7,749)                                   |
| Unallocated employee fringe benefits              | 145,700           | 145,700           | 62,178            | (83,522)                                  |
| Total other functions                             | 163,700           | 163,700           | 72,429            | (91,271)                                  |
| Capital outlay                                    | 20,000            | 20,000            | 2,508             | (17,492)                                  |
| Debt service                                      |                   |                   |                   |   |
| Principal retirement                              | 15,000            | 15,000            | 15,000            | -   |
| Transfers out                                     | 100,000           | 130,000           | 130,000           | -   |
| Total expenditures                                | 655,500           | 713,500           | 570,526           | (142,974)                                 |
| Excess (deficiency) of revenues over expenditures | (191,806)         | (249,806)         | (80,467)          | 169,339                                   |
| Fund balance - beginning of year                  | 700,620           | 700,620           | 700,620           | -   |
| <b>Fund balance - end of year</b>                 | <b>\$ 508,814</b> | <b>\$ 450,814</b> | <b>\$ 620,153</b> | <b>\$ 169,339</b>                         |

**City of Au Gres**  
**Required Supplemental Information**  
**Budgetary Comparison Schedule**  
**Major Street Fund**  
**For the Year Ended June 30, 2007**

|   | Budgeted Amounts |                  | Actual           | Actual<br>Over (Under)<br>Final<br>Budget |
|---|------------------|------------------|------------------|---|
|   | Original         | Final            |                  |   |
| <b>Revenues</b>                                   |                  |                  |                  |   |
| Other state grants                                | \$ 52,200        | \$ 52,200        | \$ 56,384        | \$ 4,184                                  |
| Local contributions                               | 2,000            | 2,000            | 2,000            | -   |
| Charges for services                              | 7,400            | 7,400            | 11,116           | 3,716                                     |
| Interest income                                   | 1,300            | 1,300            | 1,222            | (78)                                      |
|   | <u>62,900</u>    | <u>62,900</u>    | <u>70,722</u>    | <u>7,822</u>                              |
| Total revenues                                    |                  |                  |                  |   |
| <b>Expenditures</b>                               |                  |                  |                  |   |
| Current   |                  |                  |                  |   |
| Public works                                      | 46,050           | 46,050           | 29,269           | (16,781)                                  |
| Capital outlay                                    | 34,600           | 34,600           | 33,389           | (1,211)                                   |
| Debt service                                      |                  |                  |                  |   |
| Principal retirement                              | 7,000            | 7,000            | 7,000            | -   |
| Transfers out                                     | 12,700           | 12,700           | 10,901           | (1,799)                                   |
|   | <u>100,350</u>   | <u>100,350</u>   | <u>80,559</u>    | <u>(19,791)</u>                           |
| Total expenditures                                |                  |                  |                  |   |
| Excess (deficiency) of revenues over expenditures | (37,450)         | (37,450)         | (9,837)          | 27,613                                    |
| Fund balance - beginning of year                  | <u>85,776</u>    | <u>85,776</u>    | <u>85,776</u>    | <u>-</u>                                  |
| <b>Fund balance - end of year</b>                 | <u>\$ 48,326</u> | <u>\$ 48,326</u> | <u>\$ 75,939</u> | <u>\$ 27,613</u>                          |

**City of Au Gres**  
**Required Supplemental Information**  
**Budgetary Comparison Schedule**  
**Local Street Fund**  
**For the Year Ended June 30, 2007**

|   | Budgeted Amounts |                  | Actual           | Actual<br>Over (Under)<br>Final<br>Budget |
|---|------------------|------------------|------------------|---|
|   | Original         | Final            |                  |   |
| <b>Revenues</b>                                   |                  |                  |                  |   |
| Other state grants                                | \$ 32,200        | \$ 32,200        | \$ 32,918        | \$ 718                                    |
| Interest income                                   | 1,000            | 1,000            | 1,396            | 396                                       |
| Transfers in                                      | 12,000           | 12,000           | 10,901           | (1,099)                                   |
| Total revenues                                    | 45,200           | 45,200           | 45,215           | 15  |
| <b>Expenditures</b>                               |                  |                  |                  |   |
| Current   |                  |                  |                  |   |
| Public works                                      | 27,500           | 27,500           | 16,801           | (10,699)                                  |
| Capital outlay                                    | 25,500           | 25,500           | 21,722           | (3,778)                                   |
| Debt service                                      |                  |                  |                  |   |
| Principal retirement                              | 7,000            | 7,000            | 7,000            | -   |
| Total expenditures                                | 60,000           | 60,000           | 45,523           | (14,477)                                  |
| Excess (deficiency) of revenues over expenditures | (14,800)         | (14,800)         | (308)            | 14,492                                    |
| Fund balance - beginning of year                  | 95,877           | 95,877           | 95,877           | -   |
| <b>Fund balance - end of year</b>                 | <b>\$ 81,077</b> | <b>\$ 81,077</b> | <b>\$ 95,569</b> | <b>\$ 14,492</b>                          |



## OTHER SUPPLEMENTAL INFORMATION

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**City of Au Gres**  
**Other Supplemental Information**  
**Combining Balance Sheet**  
**Nonmajor Governmental Funds**  
**June 30, 2007**

|  | Special Revenue<br>Funds |                  | Debt Service<br>Funds       |                 |   | Capital<br>Projects Fund | Total<br>Nonmajor<br>Governmental<br>Funds |
|--|--------------------------|------------------|-----------------------------|-----------------|---|--------------------------|--|
|  | Police                   | Library          | Special Assessment<br>Bonds |                 | General<br>Obligation<br>Sewer<br>Bonds | Library<br>Building      |  |
|  |                          |                  | E. Saginaw<br>Street        | Ashdale         |   |                          |  |
| <b>Assets</b>                              |                          |                  |                             |                 |   |                          |  |
| Cash and cash equivalents                  | \$ 11,036                | \$ 42,718        | \$ 13,542                   | \$ 1,260        | \$ 3,754                                | \$ 51,572                | \$ 123,882                                 |
| Investments                                | -                        | -                | -                           | -               | -                                       | 30,600                   | 30,600                                     |
| Receivables                                |                          |                  |                             |                 |   |                          |  |
| Taxes                                      | -                        | 29,022           | -                           | -               | -                                       | -                        | 29,022                                     |
| Special assessments                        | -                        | -                | 5,542                       | 2,905           | -                                       | -                        | 8,447                                      |
| Due from other funds                       | -                        | 198              | -                           | -               | -                                       | -                        | 198  |
| <b>Total assets</b>                        | <u>\$ 11,036</u>         | <u>\$ 71,938</u> | <u>\$ 19,084</u>            | <u>\$ 4,165</u> | <u>\$ 3,754</u>                         | <u>\$ 82,172</u>         | <u>\$ 192,149</u>                          |
| <b>Liabilities</b>                         |                          |                  |                             |                 |   |                          |  |
| Deferred revenue                           | \$ -                     | \$ 29,022        | \$ 5,542                    | \$ 2,905        | \$ -                                    | \$ -                     | \$ 37,469                                  |
| <b>Fund balances</b>                       |                          |                  |                             |                 |   |                          |  |
| Reserved for:                              |                          |                  |                             |                 |   |                          |  |
| Debt service                               | -                        | -                | 13,542                      | 1,260           | 3,754                                   | -                        | 18,556                                     |
| Unreserved                                 |                          |                  |                             |                 |   |                          |  |
| Designated for:                            |                          |                  |                             |                 |   |                          |  |
| Capital projects                           | -                        | -                | -                           | -               | -                                       | 82,172                   | 82,172                                     |
| Undesignated                               | 11,036                   | 42,916           | -                           | -               | -                                       | -                        | 53,952                                     |
| <b>Total fund balances</b>                 | <u>11,036</u>            | <u>42,916</u>    | <u>13,542</u>               | <u>1,260</u>    | <u>3,754</u>                            | <u>82,172</u>            | <u>154,680</u>                             |
| <b>Total liabilities and fund balances</b> | <u>\$ 11,036</u>         | <u>\$ 71,938</u> | <u>\$ 19,084</u>            | <u>\$ 4,165</u> | <u>\$ 3,754</u>                         | <u>\$ 82,172</u>         | <u>\$ 192,149</u>                          |

**City of Au Gres**  
**Other Supplemental Information**  
**Combining Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Nonmajor Governmental Funds**  
**For the Year Ended June 30, 2007**

|   | Special Revenue Funds |                  | Debt Service Funds       |                 |                                | Capital Projects Fund | Total Nonmajor Governmental Funds |
|---|-----------------------|------------------|--------------------------|-----------------|--------------------------------|-----------------------|-----------------------------------|
|   |                       |                  | Special Assessment Bonds |                 | General Obligation Sewer Bonds | Library Building      |                                   |
|   | Police                | Library          | E. Saginaw Street        | Ashdale         |                                |                       |                                   |
| <b>Revenues</b>                                   |                       |                  |                          |                 |                                |                       |                                   |
| Taxes   | \$ 66,873             | \$ 29,404        | \$ -                     | \$ -            | \$ 7,764                       | \$ -                  | \$ 104,041                        |
| Other state grants                                | 2,530                 | -                | -                        | -               | -                              | -                     | 2,530                             |
| Interest income                                   | 1,371                 | 189              | 56                       | 11              | 443                            | 9,068                 | 11,138                            |
| Other revenue                                     | 350                   | -                | 6,327                    | 3,251           | -                              | 11,371                | 21,299                            |
| Total revenues                                    | 71,124                | 29,593           | 6,383                    | 3,262           | 8,207                          | 20,439                | 139,008                           |
| <b>Expenditures</b>                               |                       |                  |                          |                 |                                |                       |                                   |
| Current   |                       |                  |                          |                 |                                |                       |                                   |
| Public safety                                     | 80,040                | -                | -                        | -               | -                              | -                     | 80,040                            |
| Public works                                      | -                     | -                | 1,178                    | -               | 2,000                          | -                     | 3,178                             |
| Recreation and culture                            | -                     | 32,171           | -                        | -               | -                              | -                     | 32,171                            |
| Debt service                                      |                       |                  |                          |                 |                                |                       |                                   |
| Principal retirement                              | -                     | -                | 6,000                    | 4,000           | 6,000                          | -                     | 16,000                            |
| Interest and fiscal charges                       | -                     | -                | 486                      | 697             | 1,200                          | -                     | 2,383                             |
| Total expenditures                                | 80,040                | 32,171           | 7,664                    | 4,697           | 9,200                          | -                     | 133,772                           |
| Excess (deficiency) of revenues over expenditures | (8,916)               | (2,578)          | (1,281)                  | (1,435)         | (993)                          | 20,439                | 5,236                             |
| Fund balance - beginning of year                  | 19,952                | 45,494           | 14,823                   | 2,695           | 4,747                          | 61,733                | 149,444                           |
| <b>Fund balance - end of year</b>                 | <b>\$ 11,036</b>      | <b>\$ 42,916</b> | <b>\$ 13,542</b>         | <b>\$ 1,260</b> | <b>\$ 3,754</b>                | <b>\$ 82,172</b>      | <b>\$ 154,680</b>                 |

**City of Au Gres**  
**Other Supplemental Information**  
**Component Unit - Tax Increment Financing Authority**  
**Budgetary Comparison Schedule**  
**For the Year Ended June 30, 2007**

|                                      | Budgeted Amounts |                  | Actual            | Actual<br>Over (Under)<br>Final<br>Budget |
|--------------------------------------|------------------|------------------|-------------------|---|
|                                      | Original         | Final            |                   |   |
| <b>Revenues</b>                      |                  |                  |                   |   |
| Taxes                                | \$ 328,779       | \$ 328,779       | \$ 429,903        | \$ 101,124                                |
| Interest income                      | 800              | 800              | 2,346             | 1,546                                     |
| Total revenues                       | 329,579          | 329,579          | 432,249           | 102,670                                   |
| <b>Expenditures</b>                  |                  |                  |                   |   |
| Current                              |                  |                  |                   |   |
| Community and economic development   | 77,400           | 77,400           | 209,759           | 132,359                                   |
| Capital outlay                       | 45,700           | 45,700           | 10,475            | (35,225)                                  |
| Debt service                         |                  |                  |                   |   |
| Principal retirement                 | 150,000          | 150,000          | 90,700            | (59,300)                                  |
| Interest and fiscal charges          | 51,496           | 51,496           | 51,911            | 415                                       |
| Total expenditures                   | 324,596          | 324,596          | 362,845           | 38,249                                    |
| Excess of revenues over expenditures | 4,983            | 4,983            | 69,404            | 64,421                                    |
| Fund balance - beginning of year     | 65,687           | 65,687           | 65,687            | -   |
| <b>Fund balance - end of year</b>    | <b>\$ 70,670</b> | <b>\$ 70,670</b> | <b>\$ 135,091</b> | <b>\$ 64,421</b>                          |

**City of Au Gres**  
**Other Supplemental Information**  
**Schedule of Indebtedness**  
**June 30, 2007**

| Description                                       | Interest Rate | Date of Maturity | Amount of Annual Maturity | Principal      | Interest       | Total            |
|---|---------------|------------------|---------------------------|----------------|----------------|------------------|
| <b>Governmental Activities</b>                    |               |                  |                           |                |                |                  |
| General Obligation Sewage Disposal System Bonds   |               |                  |                           |                |                |                  |
| Date of issue 1/28/72;                            |               |                  |                           |                |                |                  |
| amount of issue \$ 150,000                        |               |                  |                           |                |                |                  |
|   | 5.000%        | 1/1/2008         | \$ 6,000                  | \$ 6,000       | \$ 900         | \$ 6,900         |
|   | 5.000%        | 1/1/2009         | 6,000                     | 6,000          | 600            | 6,600            |
|   | 5.000%        | 1/1/2010         | 6,000                     | 6,000          | 300            | 6,300            |
|   |               |                  |                           | <u>18,000</u>  | <u>1,800</u>   | <u>19,800</u>    |
| General Obligation Limited Tax Bonds, Series 1996 |               |                  |                           |                |                |                  |
| Date of issue 9/1/96;                             |               |                  |                           |                |                |                  |
| amount of issue \$ 725,000                        |               |                  |                           |                |                |                  |
|   | 5.550%        | 6/1/2008         | 50,000                    | 50,000         | 12,613         | 62,613           |
|   | 5.600%        | 6/1/2009         | 50,000                    | 50,000         | 9,838          | 59,838           |
|   | 5.600%        | 6/1/2010         | 50,000                    | 50,000         | 7,038          | 57,038           |
|   | 5.650%        | 6/1/2011         | 75,000                    | 75,000         | 4,238          | 79,238           |
|   |               |                  |                           | <u>225,000</u> | <u>33,727</u>  | <u>258,727</u>   |
| City Improvement Bonds                            |               |                  |                           |                |                |                  |
| Date of issue 5/1/07;                             |               |                  |                           |                |                |                  |
| amount of issue \$ 995,000                        |               |                  |                           |                |                |                  |
|   | 3.850%        | 5/1/2008         | 50,000                    | 50,000         | 41,582         | 91,582           |
|   | 3.900%        | 5/1/2009         | 50,000                    | 50,000         | 39,658         | 89,658           |
|   | 3.950%        | 5/1/2010         | 50,000                    | 50,000         | 37,708         | 87,708           |
|   | 4.000%        | 5/1/2011         | 55,000                    | 55,000         | 35,732         | 90,732           |
|   | 4.000%        | 5/1/2012         | 60,000                    | 60,000         | 33,532         | 93,532           |
|   | 4.050%        | 5/1/2013         | 60,000                    | 60,000         | 31,132         | 91,132           |
|   | 4.100%        | 5/1/2014         | 60,000                    | 60,000         | 28,702         | 88,702           |
|   | 4.150%        | 5/1/2015         | 65,000                    | 65,000         | 26,242         | 91,242           |
|   | 4.200%        | 5/1/2016         | 70,000                    | 70,000         | 23,546         | 93,546           |
|   | 4.250%        | 5/1/2017         | 70,000                    | 70,000         | 20,606         | 90,606           |
|   | 4.300%        | 5/1/2018         | 75,000                    | 75,000         | 17,630         | 92,630           |
|   | 4.300%        | 5/1/2019         | 75,000                    | 75,000         | 14,405         | 89,405           |
|   | 4.350%        | 5/1/2020         | 80,000                    | 80,000         | 11,180         | 91,180           |
|   | 4.400%        | 5/1/2021         | 85,000                    | 85,000         | 7,700          | 92,700           |
|   | 4.400%        | 5/1/2022         | 90,000                    | 90,000         | 3,960          | 93,960           |
|   |               |                  |                           | <u>995,000</u> | <u>373,315</u> | <u>1,368,315</u> |

**City of Au Gres**  
**Other Supplemental Information**  
**Schedule of Indebtedness**  
**June 30, 2007**

| Description  | Interest Rate | Date of Maturity | Amount of Annual Maturity | Principal | Interest | Total    |
|--|---------------|------------------|---------------------------|-----------|----------|----------|
| <b>Governmental Activities</b>   |               |                  |                           |           |          |          |
| Special Assessment Bonds - East Saginaw Street<br>Date of issue 9/1/96;<br>amount of issue \$ 91,000   | 5.400%        | 10/1/2007        | \$ 6,000                  | \$ 6,000  | \$ 162   | \$ 6,162 |
| Special Assessment Bond - Ashdale, Series 1998<br>Date of issue 10/1/98;<br>amount of issue \$ 41,000  | 4.950%        | 10/1/2007        | 5,000                     | 5,000     | 248      | 5,248    |
| Special Assessment Bonds Series 1996<br>Date of issue 9/1/96;<br>amount of issue \$ 705,000  | 5.550%        | 6/1/2008         | 50,000                    | 50,000    | 11,483   | 61,483   |
|  | 5.550%        | 6/1/2009         | 50,000                    | 50,000    | 8,708    | 58,708   |
|  | 5.600%        | 6/1/2010         | 50,000                    | 50,000    | 5,908    | 55,908   |
|  | 5.600%        | 6/1/2011         | 55,000                    | 55,000    | 3,108    | 58,108   |
|  |               |                  |                           | 205,000   | 29,207   | 234,207  |
| Building Authority Revenue Bonds 1999<br>Date of issue 3/1/99;<br>amount of issue \$ 675,000   | 4.400%        | 9/1/2008         | 50,000                    | 50,000    | 19,413   | 69,413   |
|  | 4.450%        | 9/1/2009         | 50,000                    | 50,000    | 17,213   | 67,213   |
|  | 4.500%        | 9/1/2010         | 50,000                    | 50,000    | 14,988   | 64,988   |
|  | 4.550%        | 9/1/2011         | 50,000                    | 50,000    | 12,738   | 62,738   |
|  | 4.600%        | 9/1/2012         | 75,000                    | 75,000    | 10,463   | 85,463   |
|  | 4.650%        | 9/1/2013         | 75,000                    | 75,000    | 7,013    | 82,013   |
|  | 4.700%        | 9/1/2014         | 75,000                    | 75,000    | 3,525    | 78,525   |
|  |               |                  |                           | 425,000   | 85,353   | 510,353  |
| 2004 Lease Purchase Agreement - Street Sweeper<br>Date of agreement - June 8, 2004<br>amount of lease payable - \$ 112,000<br>quarterly payments of \$ 5,348 | 4.480%        | 2008             | 19,032                    | 19,032    | 853      | 19,885   |
|  | 4.480%        | 2009             | 19,899                    | 19,899    | 892      | 20,791   |
|  | 4.480%        | 2010             | 20,806                    | 20,806    | 932      | 21,738   |
|  |               |                  |                           | 59,737    | 2,677    | 62,414   |

**City of Au Gres**  
**Other Supplemental Information**  
**Schedule of Indebtedness**  
**June 30, 2007**

| Description                     | Interest Rate | Date of Maturity | Amount of Annual Maturity | Principal           | Interest            | Total               |
|---------------------------------|---------------|------------------|---------------------------|---------------------|---------------------|---------------------|
| <b>Business-type Activities</b> |               |                  |                           |                     |                     |                     |
| Water Revenue Bond              |               |                  |                           |                     |                     |                     |
| Date of issue 5/24/95;          |               |                  |                           |                     |                     |                     |
| amount of issue \$ 913,000      |               |                  |                           |                     |                     |                     |
|                                 | 5.125%        | 4/1/2008         | \$ 13,000                 | \$ 13,000           | \$ 40,744           | \$ 53,744           |
|                                 | 5.125%        | 4/1/2009         | 14,000                    | 14,000              | 40,078              | 54,078              |
|                                 | 5.125%        | 4/1/2010         | 15,000                    | 15,000              | 39,360              | 54,360              |
|                                 | 5.125%        | 4/1/2011         | 16,000                    | 16,000              | 38,181              | 54,181              |
|                                 | 5.125%        | 4/1/2012         | 16,000                    | 16,000              | 37,336              | 53,336              |
|                                 | 5.125%        | 4/1/2013         | 17,000                    | 17,000              | 36,951              | 53,951              |
|                                 | 5.125%        | 4/1/2014         | 18,000                    | 18,000              | 36,080              | 54,080              |
|                                 | 5.125%        | 4/1/2015         | 19,000                    | 19,000              | 35,158              | 54,158              |
|                                 | 5.125%        | 4/1/2016         | 20,000                    | 20,000              | 34,184              | 54,184              |
|                                 | 5.125%        | 4/1/2017         | 21,000                    | 21,000              | 33,159              | 54,159              |
|                                 | 5.125%        | 4/1/2018         | 22,000                    | 22,000              | 32,083              | 54,083              |
|                                 | 5.125%        | 4/1/2019         | 23,000                    | 23,000              | 30,955              | 53,955              |
|                                 | 5.125%        | 4/1/2020         | 24,000                    | 24,000              | 29,776              | 53,776              |
|                                 | 5.125%        | 4/1/2021         | 26,000                    | 26,000              | 28,546              | 54,546              |
|                                 | 5.125%        | 4/1/2022         | 27,000                    | 27,000              | 27,214              | 54,214              |
|                                 | 5.125%        | 4/1/2023         | 28,000                    | 28,000              | 25,830              | 53,830              |
|                                 | 5.125%        | 4/1/2024         | 30,000                    | 30,000              | 24,395              | 54,395              |
|                                 | 5.125%        | 4/1/2025         | 31,000                    | 31,000              | 22,858              | 53,858              |
|                                 | 5.125%        | 4/1/2026         | 33,000                    | 33,000              | 21,269              | 54,269              |
|                                 | 5.125%        | 4/1/2027         | 35,000                    | 35,000              | 19,578              | 54,578              |
|                                 | 5.125%        | 4/1/2028         | 36,000                    | 36,000              | 17,784              | 53,784              |
|                                 | 5.125%        | 4/1/2029         | 38,000                    | 38,000              | 15,939              | 53,939              |
|                                 | 5.125%        | 4/1/2030         | 40,000                    | 40,000              | 13,991              | 53,991              |
|                                 | 5.125%        | 4/1/2031         | 42,000                    | 42,000              | 11,941              | 53,941              |
|                                 | 5.125%        | 4/1/2032         | 44,000                    | 44,000              | 9,789               | 53,789              |
|                                 | 5.125%        | 4/1/2033         | 47,000                    | 47,000              | 7,534               | 54,534              |
|                                 | 5.125%        | 4/1/2034         | 49,000                    | 49,000              | 5,125               | 54,125              |
|                                 | 5.125%        | 4/1/2035         | 51,000                    | 51,000              | 2,614               | 53,614              |
|                                 |               |                  |                           | <u>795,000</u>      | <u>718,452</u>      | <u>1,513,452</u>    |
| Sewer Revenue Bond              |               |                  |                           |                     |                     |                     |
| Date of issue 1/1/74;           |               |                  |                           |                     |                     |                     |
| amount of issue \$ 450,000      |               |                  |                           |                     |                     |                     |
|                                 | 5.000%        | 1/1/2008         | 30,000                    | <u>30,000</u>       | <u>250</u>          | <u>30,250</u>       |
| Total business-type activities  |               |                  |                           | <u>825,000</u>      | <u>718,702</u>      | <u>1,543,702</u>    |
| <b>Total indebtedness</b>       |               |                  |                           | <u>\$ 2,763,737</u> | <u>\$ 1,245,191</u> | <u>\$ 4,008,928</u> |

**Report on Internal Control Over Financial Reporting and  
on Compliance and Other Matters Based on an Audit  
of Financial Statements Performed in Accordance  
with Government Auditing Standards**

To the Honorable Mayor and Members of City Council  
City of Au Gres

We have audited the financial statements of the governmental activities, the business type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Au Gres as of and for the year ended June 30, 2007, which collectively comprise City of Au Gres' basic financial statements and have issued our report thereon dated August 20, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the City of Au Gres' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Au Gres' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the entity's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.



A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements would not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting as for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Au Gres' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the Board of Directors, others within the entity, and federal awarding agencies and pass-through entities and is not intended and should not be used by anyone other than these specified parties.

*Yeo & Yeo, P.C.*

August 20, 2007  
Saginaw, Michigan



3023 Davenport  
Saginaw, MI 48602  
(989) 793-9830 / (800) 968-0010  
Fax (989) 793-0186

August 20, 2007

To the Honorable Mayor and Members of City Council  
City of Au Gres, Michigan

In planning and performing our audit of the financial statements of the City of Au Gres for the year ended June 30, 2007, we considered the City's internal control system to determine our auditing procedures for the purposes of expressing an opinion on the financial statements and not to provide assurance on the internal controls.

During our audit, we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The following summarizes our comments regarding those matters. This letter does not affect our report dated August 20, 2007, on the financial statements of the City of Au Gres.

#### **Comments for the current year:**

##### **Accounting Policies**

As part of our audit planning procedures, we are required to obtain an understanding of internal control of the City. Part of the internal control process is the communication of information, including the communication of how internal controls are designed and operating. During our audit planning procedures we noted that documentation of internal control policies and procedures was incomplete. We recommend that the City completely document and disseminate all internal control policies and procedures in one document. This ensures that all employees understand what their responsibilities in internal control are. In addition, it ensures continuity of internal control procedures in the unfortunate event of employee turnover or unexpected absence. Documentation should not only indicate the flow of documents but also what internal control procedures are performed by each employee and what documentation is required to indicate a procedure was completed. The monitoring process should also be documented in this procedures manual, including who is responsible for monitoring, the minimum monitoring which must be done, and what documentation is required to indicate monitoring was performed.

##### **Password Protection**

During our audit, we noted that computers and the accounting software is password protected. However, passwords are shared among employees. To help ensure that private and confidential information remains protected, passwords must be used effectively. We recommend that a policy be established which encourages employees to change their passwords on a regular reoccurring basis and discourages sharing of passwords. In addition, we recommend setting up rights in the accounting software so not all employees have access to the entire general ledger, only access to those areas that pertain to their job description.

### **Journal Entry Approval**

In performing test of controls of journal entries, it came to our attention that there is no review process for journal entries made. Someone outside the journal entry process should review them for proper amount, classification and for unusual items. In addition, each entry should be supported with proper documentation to substantiate the entry made. This review process will take minimal time and needs to be done on a reoccurring basis.

### **Expenditures**

A city can spend public money only for public purposes that are expressly authorized or implied by the Michigan Constitution and statutes. This is an area that has been highly debated around the State of Michigan. Several interpretations have been provided by the Michigan Departments of Treasury and Attorney General. In addition, the Department of Treasury has provided auditors with a list of illegal or unauthorized expenditures and require that they report these expenditures if they come to their attention during an audit.

The following are examples that have been identified in the Michigan Department of Treasury *Bulletin for Audits of Local Units of Government*.

- Contributions to churches, veterans, nonprofit organizations.
- Payment of funeral expenses for a person injured on government property.
- Donations to a private ambulance or EMS service not under contract with the governmental unit.
- Donations, including use of property or equipment to Little League, Scouts, Big Brothers/Sisters.
- Donations to community organizations.
- Expenses for private road construction or maintenance.
- Office refreshments, picnics.
- Presents to officials and employees or retirement recognition events.
- Flowers to the sick or departed.
- Mileage of officials and employees to and from their residence to the city hall.

During the audit we noted immaterial expenditures included in the above list. We recommend that township officials and management periodically review the listing of expenditures that the State of Michigan has determined are unallowable costs in order to prevent any recurrences.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with Township personnel. We will be pleased to discuss these items in further detail at your convenience, to perform any additional study of these matters or to assist you in implementing the recommendations.

Very truly yours,

YEO & YEO, P.C.  
CPAs and Business Consultants



Michael Gensch